

# FINANCIAL IMPROVEMENT AND AUDIT READINESS (FIAR) PLAN STATUS REPORT



UNITED STATES  
DEPARTMENT OF DEFENSE



May 2012

Office of the Under Secretary of Defense (Comptroller) / Chief Financial Officer



## Message from the Secretary of Defense

*The Department of Defense (DoD) faces two interrelated challenges: We must reduce defense funding by \$487 billion over the next 10 years and, at the same time, maintain our ability to meet the nation's critical national security challenges. Achieving these spending cuts while preserving national security capabilities will be challenging, and it requires identifying additional efficiencies.*

*To help achieve savings, the Department must work even harder to overhaul the way it does business. An essential part of this effort will be improving the quality of financial information and moving toward auditable financial statements. Today, DoD is the only major federal agency that cannot audit its financial books. This will change.*

*On October 13, 2011, I directed the Department to cut in half the time it will take to achieve audit readiness for the Statement of Budgetary Resources for General Funds, so that in 2014 we will have the ability to conduct a full budget audit. We will be fully audit ready by 2017. Achieving these goals will give our managers the auditable information they need to track spending, identify waste, and improve the way the Pentagon does business. More importantly, achieving this goal will give the American people more confidence in our stewardship.*

*Many tough choices lie ahead for the Department and for Congress, but we do not have to choose between fiscal security and national security. We are changing the way we do business, and we will maintain the best military in the world.*



A handwritten signature in black ink, appearing to read 'Leon E. Panetta', with a long horizontal flourish extending to the right.

**Leon E. Panetta**  
Secretary of Defense

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## Message from the Under Secretary of Defense (Comptroller)

*I am pleased to transmit the May 2012 Financial Improvement and Audit Readiness (FIAR) Plan Status Report. This is the first full status report detailing the Department's plans for realizing Secretary Panetta's accelerated goal of achieving audit readiness on the Statement of Budgetary Resources for General Funds by 2014, and on all financial statements by September 30, 2017. In addition to reporting accomplishments and progress, the May 2012 FIAR Plan Status Report includes updated plans for meeting the 2014 goal, details on each Enterprise Resource Planning system, and audit readiness plans for the Department's internal service providers.*

*The Department continues to make significant progress. Secretary Panetta's steadfast and personal commitment to auditability has been invaluable. His spotlighting audit readiness as an "all-hands" effort has helped us engage leadership at all levels, and we are seizing this golden opportunity. We are reaching out to commanders and managers throughout the Department to help them understand how audit readiness will help them make more informed decisions on resource expenditures and requests. Efforts are underway to check that the information needed by an auditor is readily accessible at the command level, and we have stepped up our effort to get the word out through more targeted communications.*

*The goals before us are challenging but attainable. The commitment of leadership sustained over time, combined with our existing plans to improve systems, tighten controls, and increase workforce competency through a training certification program, gives me confidence in the Department's ability to achieve audit readiness and honor the trust of the American people.*



A handwritten signature in cursive script that reads "Robert F. Hale".

**Robert F. Hale**  
Under Secretary of Defense (Comptroller)/  
Chief Financial Officer

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**Preparation of this study/report cost the Department of Defense a total of approximately \$226,000 in Fiscal Year 2012.**

## Executive Summary

The Financial Improvement and Audit Readiness (FIAR) Plan Status Report (Report) was prepared in accordance with the requirements in the National Defense Authorization Acts (NDAA) for Fiscal Years (FY) 2010, 2011, and 2012. The Report also addresses issues impeding the reliability of the Department of Defense (DoD) financial statements and serves as the Department's annual Financial Management Improvement Plan, required by Section 1008(a) of the NDAA for FY 2002.

The Report is organized by Military Department and other Defense organizations. Two new sections have been added to provide additional detail regarding the importance of service providers and governance:

- *Section VI. Service Provider Audit Readiness* highlights the essential role played by the service providers in achieving audit readiness. Service providers are Defense Agencies or other organizations that provide support services to the Components. For example, two key service providers are the Defense Finance and Accounting Service (DFAS) and Defense Information Systems Agency (DISA). The services they provide impact the auditability of the amounts reported on Component financial statements.
- *Section VII. Office of the Secretary of Defense FIAR Oversight and Management* identifies the Office of the Secretary of Defense (OSD) organizations participating in the FIAR process and the critical roles they play. This section also identifies the risks to achieving auditability and associated mitigation actions and plans, including developing and executing a Change Management and Communication program.

Appendix 1 lists the recommendations from the January 24, 2012, report of the House Armed Services Committee Panel on Defense Financial Management and Auditability Reform and the actions taken by the Department in response.

## WHY AUDITABLE FINANCIAL STATEMENTS ARE NEEDED

Not only are auditable annual financial statements required by law, they enable improved and transparent business and financial operations, and ultimately save money. In addition, auditable financial statements reassure the public that the Department is a good steward of its resources.

### Secretary's Direction

On October 13, 2011, Secretary of Defense Leon E. Panetta directed the Department to accelerate several of the FIAR Plan goals and place greater emphasis on the overall effort. Specifically, the Secretary called for the Department to:

- Achieve audit readiness of the Statement of Budgetary Resources (SBR) by the end of calendar year (CY) 2014.
- Increase emphasis on accountability of assets.
- Execute a full review of the Department's financial controls over the next two years and establish interim goals against which to assess progress.
- Ensure mandatory training for audit and other key financial efforts, and establish by the end of CY 2012 a pilot certification program for financial managers – similar to the one now in place for acquisition managers.
- Appropriately resource efforts to meet these goals.
- Meet the legal requirements to achieve full audit readiness for all DoD financial statements by 2017.

The Secretary also directed the Components to incorporate the accelerated date of 2014 for the SBR into their Financial Improvement Plans (FIPs) and the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) to submit the revised plans within 60 days. The Components complied with the Secretary's direction, and

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in December 2011, the USD(C)/CFO presented Secretary Panetta with the revised General Fund SBR audit readiness plans, which included asserting audit readiness by June 30, 2014, validating audit readiness by September 30, 2014, and starting audits by December 31, 2014.

Achieving the 2014 SBR audit readiness goal will be challenging, but with the Secretary's involvement, the Department's ability to achieve this goal has been significantly increased. The Components' revised audit readiness plans are reflected in this Report.

### It's the Law

The Chief Financial Officers Act (CFOA) of 1990 requires federal agencies to prepare annual financial statements, and the Government Management Reform Act (GMRA) of 1994 requires the financial statements to be audited. In addition to the CFOA and GMRA, Congress legislated the following:

- Sec. 1003 of the FY 2010 NDAA requires the Department to develop and maintain a plan that ensures DoD financial statements are validated as ready for audit by not later than September 30, 2017.
- Sec. 1003 of the FY 2012 NDAA requires the plan to include the interim objectives and a schedule of milestones for each Military Department and Defense Agency to support the goal established by the Secretary of Defense that the SBR be validated for audit by not later than September 30, 2014.

The Department is working aggressively and in a cost effective manner to comply with these legal requirements, while keeping Congress informed of its progress.

### Improves Management and Saves Money

The process of achieving auditable financial statements improves the management of DoD resources (e.g., people, funds, property, supplies), and often results in saving money. Although the Department is several years away from achieving audit readiness, management improvements already have resulted in the better use of funds. For example, as a

result of U.S. Marine Corps work to achieve an auditable SBR and improved processes, more than \$9 million in expiring funds were reinvested in operations. While preparing for its successful FY 2011 Working Capital Fund Financial Statements audit, DISA identified \$85 million in unused funds to fully fund a Defense Switched Network upgrade.

### Reassures the Public of DoD Stewardship

Most importantly, auditable financial statements reassure the public that the Department is properly and effectively executing its stewardship responsibilities. To do this, the Department must wisely and responsibly spend taxpayer dollars as appropriated by the Congress, account for how such money was spent, and provide accurate and reliable financial information. The Department's stewardship responsibilities include safeguarding assets and guarding against waste, fraud, and abuse.

Today, military and civilian personnel seek to be good stewards of the DoD funds and assets, but they recognize that achieving auditable financial statements will demonstrate their conscientious stewardship efforts.

## SECRETARY'S IMPACT ON AUDIT READINESS

Secretary Panetta's commitment to and personal involvement in auditability has elevated audit readiness to an "all hands" DoD-wide effort. The impact can be seen in a variety of ways:

- Warfighters, from flag officers to enlisted personnel, are more aware, engaged, and committed to audit readiness.
- Appropriate senior executives across the Department, including those outside the financial community, have FIAR goals in their performance plans and are being held accountable.
- The Defense Agencies and other Defense organizations have developed FIPs and established SBR audit readiness dates consistent with the Secretary's direction for 2014. Progress is being monitored and routinely reported in the FIAR governance

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process (see Section VII of this Report for more detailed information).

- Component FIPs better conform to DoD FIAR Guidance and provide more detail regarding discovery and corrective actions. The FIPs are reviewed monthly by the Office of the Under Secretary of Defense (Comptroller) (OUSDC), and the quality is routinely reported in the FIAR governance process.
- Acquisition Decision Memorandums (ADMs) issued by business information technology (IT) milestone decision authorities now consistently contain FIAR goals and requirements.
- Component commands and subordinate organizations are more actively involved.
- Adequate funds for audit readiness activities have been maintained.
- Participation in FIAR training courses has significantly increased.

Even with the Secretary's commitment and involvement, the significant challenges to eliminating material weaknesses, strengthening internal controls, modernizing business and financial systems, and producing auditable financial statements remain. However, the Department is now better positioned to make meaningful progress, sustain improvements, maintain a strong control environment, and achieve auditability. In fact, progress has been made since the last FIAR Plan Status Report.

### AUDIT READINESS PRIORITIES AND PROGRESS

Secretary Panetta's direction to the Department reinforced the FIAR priorities established in August 2009 and accelerated the timeframe for accomplishing the first FIAR priority.

### FIAR Priorities

The FIAR priorities were established to focus Component improvements on processes, controls, and systems supporting information most often used to manage the Department, while continuing to work toward financial improvements that facilitate unqualified audit opinions on their financial statements. The FIAR Plan places a high priority on:

- Budgetary information (auditable Statement of Budgetary Resources)
- Mission critical asset information

The FIAR priorities and their importance to the warfighter are explained in Appendix 2.

### Audit Readiness Progress

Significant progress has been made by the DoD Components to achieve the FIAR priorities, which is monitored and measured in several ways:

- Financial Statement audit opinions
- Audit readiness assertions for assessable units of the two priorities
- Metrics (see Section VIII of this Report)

### Financial Statement Audit Opinions

In FY 2011, Department reporting organizations with unqualified audit opinions received almost \$112 billion in budgetary resources, more than the combined budgetary resources under audit in 15 of the 24 individual CFO Act federal agencies. In FY 2011, the following additional three reporting entities received an audit opinion:

- Defense Information Systems Agency received its first unqualified audit opinion on its FY 2011 Working Capital Fund Financial Statements.

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- TRICARE Management Activity – Contract Resource Management received an unqualified opinion on its FY 2011 financial statements.
- Medicare-Eligible Retiree Health Care Fund received a qualified opinion on its FY 2011 financial statements.

Figure 1 lists all Components that successfully achieved audit opinions on their FY 2011 financial statements.

**Figure 1. Financial Statement Audit Opinions**

<b>FY 2011 Unqualified Audit Opinions</b>
U.S. Army Corps of Engineers - Civil Works
Defense Contract Audit Agency
Defense Commissary Agency
Defense Finance and Accounting Service
Defense Information Systems Agency - Working Capital Fund
Military Retirement Fund
Office of the Inspector General
TRICARE Management Activity - Contract Resource Management
<b>FY 2011 Qualified Audit Opinion</b>
Medicare-Eligible Retiree Health Care Fund

### Audit Readiness Assertions

During FY 2012, the following two audit readiness assertions were made by the Air Force:

- Existence and completeness audit readiness of Operating Materials and Supplies (OM&S) – Spare Engines in Quarter 2.
- Existence and completeness audit readiness of OM&S – Missile Motors in Quarter 2.

Six Defense Agencies and other Defense organizations made nine audit readiness assertions in FY 2012, validating the impact of the Secretary’s involvement in the FIAR process. The assertions included:

- Defense Technical Information Center assertion for Appropriations Received in Quarter 1.
- U.S. Special Operations Command assertion for Appropriations Received and assertion for existence and completeness of Combatant Craft in Quarter 2.
- Defense Advanced Research Projects Agency assertion for Reimbursable Work Orders and assertion for Civilian Pay in Quarter 2.
- Defense Contract Management Agency assertion for Appropriations Received in Quarter 2.
- Missile Defense Agency assertion for Appropriations Received and assertion for the existence and completeness of Military Equipment - Sensors in Quarter 2.
- Defense Threat Reduction Agency assertion for Appropriations Received in Quarter 3.

Figure 2 identifies the audit readiness assertions that have been accomplished by the Components. The list includes assertions for all financial statements, the SBR, assessable units of the SBR, and assessable units of mission critical assets for existence and completeness. Each assertion represents another step toward full auditability.

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Figure 2. Audit Readiness Assertions

DoD Component	Audit Readiness Assertions	Assertion Date	Status
<b>Statement of Budgetary Resources (SBR)</b>			
U.S. Marine Corps	SBR	Q4 FY 2008	Under Audit
Army	Appropriations Received	Q4 FY 2010	Examination Complete - In Sustainment
Army	Examination of GFEBs Wave 1 Entities	Q2 FY 2011	Qualified Audit Opinion
Navy	Appropriations Received	Q1 FY 2010	Examination Complete - In Sustainment
Navy	Civilian Pay	Q2 FY 2010	Additional Corrective Actions Needed
Navy	Transportation of People	Q4 FY 2010	Additional Corrective Actions Needed
Navy	E-2D Hawkeye Acquisition Program	Q4 FY 2011	IPA Examination Underway
Air Force	Appropriations Received	Q4 FY 2010	Examination Complete - In Sustainment
Air Force	Rescissions	Q4 FY 2010	In Sustainment
Air Force	Non-expenditure Transfers	Q4 FY 2010	In Sustainment
Air Force	FBWT Reconciliation	Q1 FY 2011	Examination Complete - In Sustainment
Defense Logistics Agency	Appropriations Received	Q4 FY 2010	Additional Corrective Actions Needed
TRICARE Management Activity	Appropriations Received	Q4 FY 2011	OUSD(C) Validation Underway
Service Medical Activity	Appropriations Received	Q4 FY 2011	OUSD(C) Validation Underway
Defense Advanced Research Projects Agency	Appropriations Received	Q4 FY 2011	OUSD(C) Validation Underway
Chemical Biological Defense Program	Appropriations Received	Q4 FY 2011	In Sustainment
Defense Technical Information Center	Appropriations Received	Q1 FY 2012	OUSD(C) Validation Underway
U.S. Special Operations Command	Appropriations Received	Q2 FY 2012	OUSD(C) Validation Underway
Defense Contract Management Agency	Appropriations Received	Q2 FY 2012	OUSD(C) Validation Underway
Defense Advanced Research Projects Agency	Reimbursable Work Orders	Q2 FY 2012	OUSD(C) Validation Underway
Defense Advanced Research Projects Agency	Civilian Pay	Q2 FY 2012	OUSD(C) Validation Underway
Missile Defense Agency	Appropriations Received	Q2 FY 2012	OUSD(C) Validation Underway
Defense Threat Reduction Agency	Appropriations Received	Q3 FY 2012	OUSD(C) Validation Underway
<b>Mission Critical Asset Existence and Completeness</b>			
Army	Military Equipment - 8 Asset Types	Q2 FY 2011	Additional Corrective Actions Needed
Army	General Equipment - Fire & Rescue	Q2 FY 2011	Additional Corrective Actions Needed
Navy	Military Equipment	Q4 FY 2010	Examination Complete - In Sustainment
Navy	OM&S - Ordnance	Q4 FY 2010	Additional Corrective Actions Needed
Air Force	Military Equipment	Q1 FY 2011	DoD OIG Examination Underway
Air Force	OM&S - Cruise Missiles	Q3 FY 2011	DoD OIG Examination Underway
Air Force	OM&S - Aerial Targets/Drones	Q3 FY 2011	DoD OIG Examination Underway
Air Force	OM&S - Spare Engines	Q2 FY 2012	OUSD(C) Validation Underway
Air Force	OM&S - Missile Motors	Q2 FY 2012	OUSD(C) Validation Underway
Missile Defense Agency	Military Equipment - Sensors	Q2 FY 2012	OUSD(C) Validation Underway
U.S. Special Operations Command	Combatant Craft	Q2 FY 2012	OUSD(C) Validation Underway

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### Summary of FIAR Priorities Progress

Figure 3 shows that 15 percent of the Department's budgetary resources are presently under audit. The Military Departments, Defense Agencies, and other Defense organizations are preparing the remaining budgetary resources for audit, which will be accomplished by the end of FY 2014. Although a Component of the Department of the Navy, the U.S. Marine Corps is included in the 15 percent under audit.

Figure 3. SBR Audit Readiness Status

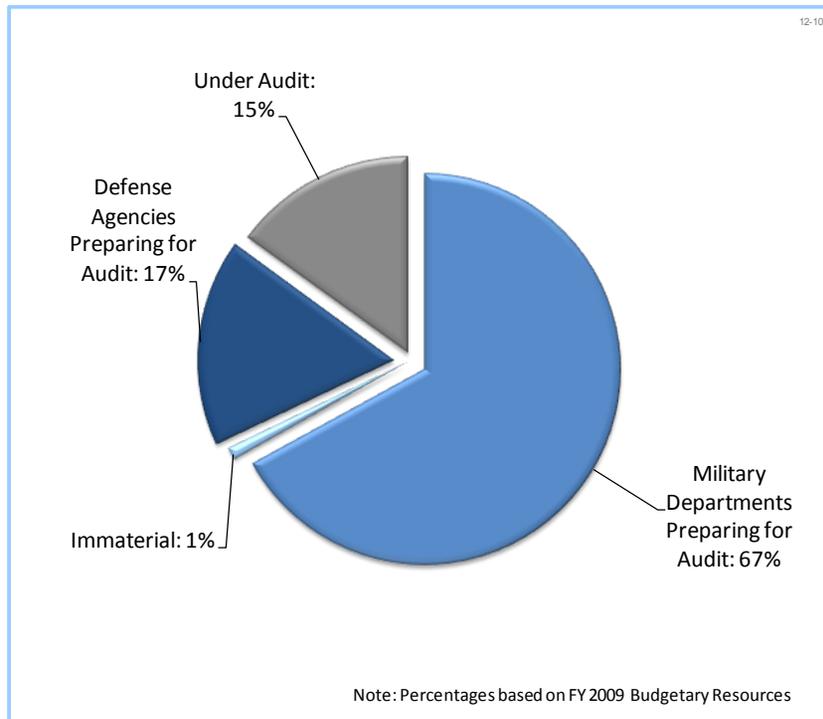
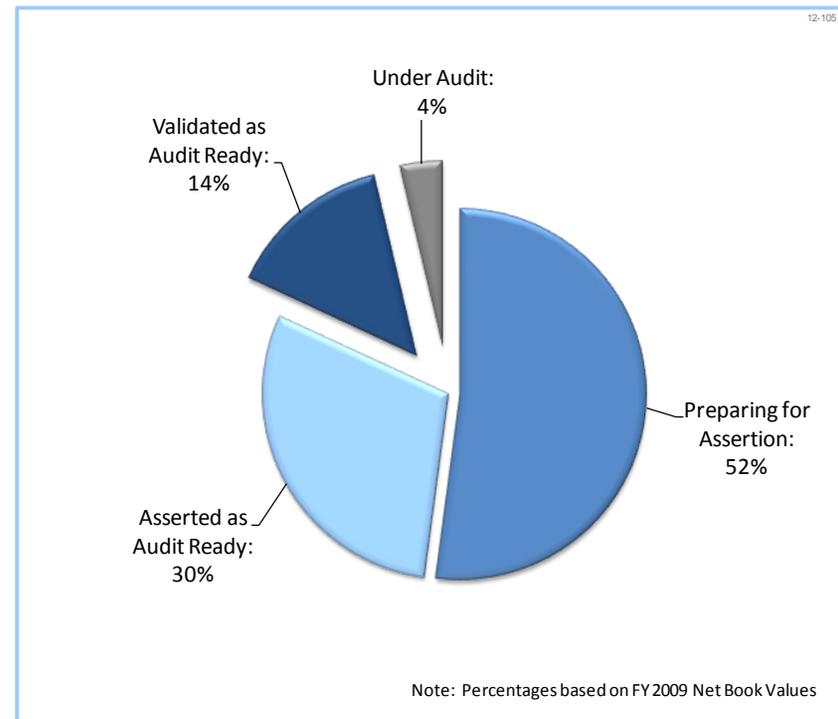


Figure 4 illustrates that 4 percent of the Department's mission critical assets is under existence and completeness audit, 14 percent has been validated as audit ready, 30 percent has been asserted by the Component as audit ready, and the remaining 52 percent is preparing for audit readiness assertions. By September 30, 2017, when the Department is planning to have all of its financial statements ready for audit, all of its mission critical assets also will be either under audit or audit ready.

Figure 4. Existence and Completeness Audit Readiness Status



### ACHIEVING FULL AUDITABILITY BY 2017

The Department has developed and implemented a strategy (FIAR Strategy) and methodology (FIAR Methodology) to achieve audit readiness by September 30, 2017, as required by law. The FIAR Strategy and FIAR Methodology are provided in Appendix 2. To meet the requirements of the law, all Component financial statements must be audit ready, including both General Fund and Working Capital Fund Financial Statements and the DoD Consolidated Financial Statements.

As previously mentioned, the FIAR Strategy requires the Components to focus first on improving financial and business information most useful to management and warfighters. Specifically, the FIAR priorities require improvements to budgetary information and mission critical asset information. The FIAR Strategy prioritizes the Component's financial improvement work into "waves" representing significant levels of effort and accomplishments:

- Wave 1 – Appropriations Received Audit
- Wave 2 – Statement of Budgetary Resources Audit
- Wave 3 – Mission Critical Asset Existence and Completeness Audit
- Wave 4 – Full Audit, Except for Existing Asset Valuation

Completing the goals and objectives of Waves 1 and 2 complies with the Secretary's direction to the Department for General Fund SBR auditability in 2014. Secretary Panetta also directed increased emphasis on the accountability of assets, which is consistent with the goals and objectives of Wave 3, and which will be fully achieved by September 30, 2017. However, the majority of the Department's mission critical assets, such as military equipment, will be audit ready for existence and completeness well before 2017. The Component's Wave 3, Mission Critical Asset Existence and Completeness Audit, goals and milestones are available in the Component sections of this Report.

Detailed work plans within the Component's FIPs for accomplishing the goals and objectives of Wave 4, Full Audit, by September 30, 2017, have not yet been developed by every Component or for every end-to-end process impacting Balance Sheet line items. The FIAR priorities require the Components to devote their resources and efforts on completing Waves 1 – 3 before beginning work on Wave 4. Nevertheless, much of the work to complete Waves 1 – 3 impacts the requirements and objectives of Wave 4. For example, the following interdependencies will be leveraged to accelerate progress and results in Wave 4:

- Delivered Orders, reported on the SBR, equate to a portion of Accounts Payable reported on the Balance Sheet.
- Spending Authority from Offsetting Collections, reported on the SBR, includes some of the amounts reported in Accounts Receivable – Intragovernmental on the Balance Sheet.
- Unobligated Balances and Unpaid Obligations, reported on the SBR, correlate to Fund Balance with Treasury (FBWT) reported on the Balance Sheet.
- Obligations Incurred, reported on the SBR, equates to a substantial portion of Gross Costs reported on the Statement of Net Cost.

When Waves 2 and 3 are complete, the remaining work to achieve full auditability should be relatively minor.

One significant challenge in Wave 4 would have been the costly and time consuming work required to obtain auditable values for the tremendous amount of DoD assets (e.g., military equipment, real property) located worldwide and procured many years ago, well before there was an audit requirement. However, as a result of the business case for valuing assets that the Department performed, per the direction of the Congress, this challenge is significantly minimized. The business case was provided to Congress in the May 2011 FIAR Plan Status Report. The Department is planning to present the business case recommendations to the Federal Accounting Standards Advisory Board in FY 2013.

## **AUDIT READINESS TARGET DATES**

The Department is focusing on achieving three target dates:

- General Funds SBR audit readiness validation by September 30, 2014
- Existence and completeness of mission critical assets by September 30, 2017
- Full audit readiness for all financial statements by September 30, 2017

### **Audit Readiness Priority Target Dates**

To achieve the audit readiness target dates for the FIAR priorities (i.e., SBR and existence and completeness of mission critical assets), the Department focuses on key elements of the SBR and the categories of mission critical assets that must be completed.

The key elements of the SBR are:

- Appropriations Received
- Fund Balance with Treasury
- Civilian Pay
- Military Pay
- Contracts

- Reimbursables
- Military Standard Requisitioning and Issuing Procedures (MILSTRIP)
- Financial Reporting

The key elements of mission critical asset existence and completeness are:

- Military Equipment
- Real Property
- Operating Materials and Supplies
- Inventory
- General Equipment

The target dates (fiscal years) for accomplishing the FIAR priorities are illustrated in Figures 5 and 6 on the following pages. Appendix 3 shows the revised audit readiness validation target dates for the key elements of the SBR for the Army, Navy, and Air Force as a result of Secretary Panetta's direction.

As shown in Appendix 3, the Army and Air Force audit readiness target dates for the SBR moved from FY 2015 and FY 2017, respectively, to FY 2014. However, the Navy's SBR audit readiness target date moved from FY 2013 to FY 2014, as well as four SBR assessable unit target dates that moved from FY 2012 to FY 2013.

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Figure 5. Military Department Audit Readiness Validation Target Dates for Key Elements of the Statement of Budgetary Resources

SBR Element	FY 2011	FY 2012	FY 2013	FY 2014
Appropriations Received				
Fund Balance with Treasury				
Civilian Pay				
Military Pay				
Contracts				
Reimbursables				
Military Standard Requisitioning and Issue (MILSTRIP)				
Financial Reporting				
Full SBR				

**Legend:** Army  Navy  Air Force 

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Figure 6. Military Department Audit Readiness Validation Target Dates for Key Elements of Mission Critical Asset Existence and Completeness (E&C)

E&C Element	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Military Equipment						
Real Property			 			
Operating Materials and Supplies						
Inventory					 	
General Equipment						

**Legend:** Army  Navy  Air Force 

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### Audit Readiness Near-Term Plans

To ensure the FIAR priority target dates are successfully accomplished, the FIAR governance process monitors the near-term plans of each Military Department, the Defense Agencies, and the other Defense organizations. The near-term plans include specific dates for completing important FIAR activity such as:

- Testing Controls
- Implementing Corrective Actions
- Validating Corrective Actions

The FIAR Committee and FIAR Subcommittee review near-term dates monthly, and the FIAR Governance Board reviews near-term dates quarterly. The near-term plans of the Army, Navy, and Air Force are provided in Figures 7, 8, and 9 on the following pages.

See Section V for the near-term plans of the Defense Agencies and other Defense organizations.

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Figure 7. Army Audit Readiness Near-Term Plans

Milestone	Tested	Corrected	Validated
<b>Information Technology Systems</b>			
General Fund Enterprise Business System (GFEBS)	✓	05/31/12	12/31/12
Global Combat Support System-Army (GCSS-A)	06/30/12	12/31/12	12/31/13
Logistics Modernization Program (LMP)	12/31/12	06/30/13	12/31/13
<b>Statement of Budgetary Resources</b>			
General Fund SBR Examination 2 – GFEBS Wave 1 & 2 Sites (9 Installations/18 Resource Management Offices and DFAS, GFEBS Controls and 9 Processes: Funds Receipt, Distribution, and Monitoring; Reimbursables In-bound and Out-bound; TDY; Contracts; Civilian Pay; Misc. Payments; Government Purchase Cards; Supply Requisitions; Financial Reporting)	✓	06/30/12	12/31/12
Automated Fund Balance with Treasury (FBWT) Reconciliation Tool	01/31/13	N/A	N/A
General Fund SBR Examination 3 – All Army General Fund Activities at all GFEBS locations (Examination 2 Processes plus MOCAS, GCSS-Army)	12/31/12	06/30/13	12/31/13
General Fund SBR Assertion/Audit – All Army General Fund Activities (Examination 3 Processes plus Military Pay)	03/31/13	06/30/14	09/30/14
FBWT	02/15/13	06/30/14	09/30/14
<b>Asset Existence and Completeness</b>			
Operating Materials and Supplies (OM&S) – Javelin, Hellfire, and TOW Missiles	✓	06/30/12	12/31/12
Real Property – 20 Installations	07/30/12	12/31/12	06/30/13
Military Equipment, General Equipment, OM&S – All Assets	06/30/12	12/31/13	06/30/14
Real Property – All Installations	03/31/13	09/30/14	03/31/15

**Note:** Tested = Completion of Discovery work; Corrected = Completion of corrective actions and assertion of audit readiness; Validated = DoD Inspector General or Independent Public Accounting firm opinion on audit readiness assertion; and ✓ = Completed.

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Figure 8. Navy Audit Readiness Near-Term Plans

Milestone	Tested	Corrected	Validated
<b>Information Technology Systems</b>			
Navy ERP (General Ledger – Financial Transaction Detail)	08/02/12	03/31/13	09/30/13
Navy Standard Integrated Personnel System (Military Personnel System)	08/02/12	03/31/13	09/30/13
Standard Labor Data Collection and Distribution Application (Civilian Time and Attendance)	08/02/12	03/31/13	09/30/13
Standard Accounting and Reporting System (General Ledger – Financial Transaction Detail)	08/02/12	03/31/13	09/30/13
<b>Statement of Budgetary Resources</b>			
U.S. Marine Corps	✓	✓	✓
Reimbursable Work Orders	02/02/12	06/30/12	12/31/12
Civilian Pay	02/02/12	06/30/12	12/31/12
Transportation of People	02/02/12	06/30/12	12/31/12
Supply Requisition (MILSTRIP)	03/28/12	09/30/12	03/31/13
Financial Reporting	04/02/12	09/30/12	03/31/13
Contract/Vendor Pay	05/10/12	12/31/12	06/30/13
Military Pay	08/02/12	03/31/13	09/30/13
Net Outlays (FBWT)	07/09/12	03/31/13	09/30/13
<b>Asset Existence and Completeness</b>			
Military Equipment – Ships, Submarines, Satellites, ICBMs	✓	✓	✓
Military Equipment – Aircraft	✓	✓	06/30/12
OM&S (Ordnance)	✓	✓	07/31/12

**Note:** Tested = Completion of Discovery work; Corrected = Completion of corrective actions and assertion of audit readiness; Validated = DoD Inspector General or Independent Public Accounting firm opinion on audit readiness assertion; and ✓ = Completed. Dates highlighted in yellow were missed. Revised dates are provided in the Navy section of this Report.

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Figure 9. Air Force Audit Readiness Near-Term Plans

Milestone	Tested	Corrected	Validated
<b>IT Systems</b>			
Automated Funds Management (Funds Control and Distribution)	✓	06/30/12	12/31/12
General Accounting and Finance System (General Ledger – Financial Transaction Detail)	05/31/12	TBD	TBD
<b>Statement of Budgetary Resources</b>			
Funds Distribution to Base-level	✓	03/31/12	09/30/12
Civilian Pay	03/31/12	12/31/12	06/30/13
Reimbursable Budget Authority	04/30/12	12/31/12	06/30/13
Military Pay	06/30/12	3/31/13	09/30/13
Reimbursable Work Orders	04/30/13	12/31/13	06/30/14
Net Outlays (Funds at Treasury)	08/31/12	12/31/13	06/30/14
Contracts (Major)	08/31/12	12/31/13	06/30/14
Contracts (Minor)	10/31/12	08/31/13	02/28/14
Supply Requisition (MILSTRIP)	10/31/12	07/31/13	01/31/14
Financial Reporting	02/28/13	12/31/13	06/30/14
<b>Asset Existence and Completeness</b>			
Military Equipment	✓	✓	06/30/12
OM&S (Cruise Missiles and Aerial Targets/Drones)	✓	✓	06/30/12
OM&S (Missile Motors & Spare Engines)	✓	✓	09/30/12
Real Property	06/30/12	06/30/13	12/31/13
OM&S (Munitions)	12/31/13	06/30/14	12/31/14

Note: Tested = Completion of Discovery work; Corrected = Completion of corrective actions and assertion of audit readiness; Validated = DoD Inspector General or Independent Public Accounting firm opinion on audit readiness assertion; and ✓ = Completed. Dates highlighted in yellow were missed. Revised dates are provided in the Air Force section of this Report.

## AUDIT READINESS RESOURCES

The Department’s senior leaders are applying the appropriate level of resources and oversight to achieve the FIAR goals and priorities. The FIAR activities funded by the amounts in Figure 10 include conducting numerous audit readiness activities, hiring independent public accounting (IPA) firms to conduct validations and audits, and resolving financial system issues (i.e., achieving an audit ready systems environment).

**Audit Readiness** encompasses the resources for evaluation, discovery, and corrective actions of the Components and their service providers (e.g., DFAS) and includes documenting and modifying processes and controls, identifying internal control deficiencies through testing and remediation of deficiencies, and evaluating transaction-level evidential

matter and ensuring it is readily available. Resources for activities to test or verify audit readiness after completing corrective actions and preparation of management assertion packages are also included.

**Validations and Audits** include the resources for validations, examinations, and financial statement audits conducted by IPAs.

**Financial Systems** includes the resources for designing and achieving an audit ready systems environment, including deployment costs. It also includes the resources to make needed and cost-effective changes to legacy systems that will be part of the audit ready systems environment. Financial System resources include design, development, deployment, interfaces, data conversion and cleansing, independent verification and validation and testing, implementation of controls and control testing, and system and process documentation.

Figure 10. DoD FIAR Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Audit Readiness</b>	\$ 121	\$ 180	\$ 242	\$ 322	\$ 309	\$ 216	\$ 224	\$ 213
Process Review and Remediation	107	134	179	243	250	158	165	155
DFAS Audit Readiness Support	-	21	44	56	38	24	25	24
Internal Audit Costs	14	25	19	23	21	34	34	34
External Audit Costs	-	8	15	37	44	91	81	91
<b>Audit Readiness and Validations and Audits Subtotal</b>	\$ 121	\$ 188	\$ 257	\$ 359	\$ 353	\$ 307	\$ 305	\$ 304
<b>Financial Systems</b>								
Non-ERPs	\$ 77	\$ 72	\$ 96	\$ 109	\$ 102	\$ 72	\$ 72	\$ 58
ERPs	1,423	1,627	1,359	1,371	984	1,010	912	659
<b>Financial Systems Subtotal</b>	\$ 1,500	\$ 1,699	\$ 1,455	\$ 1,480	\$ 1,086	\$ 1,082	\$ 984	\$ 717
<b>Total Resources</b>	\$ 1,621	\$ 1,887	\$ 1,712	\$ 1,839	\$ 1,439	\$ 1,389	\$ 1,289	\$ 1,021

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## I. Audit Readiness Accomplishments and Progress

Accomplishments and progress made since the November 2011 FIAR Plan Status Report are highlighted and described in this section along with significant activities affecting FIAR progress. Additional information is provided in the Component sections of the Report.

### U.S. MARINE CORPS AUDIT CONTINUES



The Marine Corps was the first Military Service to begin an audit of a financial statement. On November 22, 2011, the DoD Office of the Inspector General (DoD OIG) issued a disclaimer of opinion report for the audit of the United States Marine Corps (USMC) General Funds Statement of Budgetary Resources. However, the USMC has demonstrated clear improvement in its ability to provide supporting documentation for the amounts reported on its financial statements. The DoD OIG continued the audit until the end of March 2012.

Although a lack of documentation for prior year transactions precluded the auditors from completing their work, the Marine Corps experience enabled the Department to learn critical lessons that will ultimately help other Components achieve auditability, including:

- Centralized management and detailed procedures are required for requesting, handling, and transferring significant amounts of data and supporting documentation to the auditors.
- Effective management controls and sustainable reporting mechanisms must be implemented to capture accurate general ledger data in trial balances and reconciliations.
- Effective controls must be in place for retaining the transactional detail of the monthly reconciliations that auditors need to verify Fund Balance with Treasury balances.

- Electronic document repositories to provide support for audit requests are needed to efficiently locate and retrieve transaction level supporting documentation. The use of repositories helps to identify and correct internal control weaknesses associated with scanning and retaining audit-trail support.

The Marine Corps continues to support the work of the auditors and further improve financial reporting systems and processes.

### DISA CLEAN OPINION ON WORKING CAPITAL FUND



The Defense Information Systems Agency (DISA) received a clean opinion on its FY 2011 Working Capital Fund (WCF) Financial Statements, which represent about \$6.6 billion in total budgetary authority. Additionally, DISA's General Fund, which represents \$2.8 billion in total budgetary authority, will undergo audit in FY 2012.

Audit preparations at DISA have focused on cleaning up legacy data, reengineering business processes, and building a centralized documentation library. The audit readiness library contains over 15,000 documents likely to be requested by an external auditor and has helped keep audit readiness efforts on track.

### ASSERTIONS ON AUDIT READINESS

Assertions on audit readiness demonstrate the Department's continuing progress toward overall auditability. In FY 2012, 10 assertions on assessable units of the SBR and assessable units of mission critical assets for existence and completeness were made. The Air Force made the following two assertions:

- Air Force assertion for existence and completeness audit readiness of Operating Materials and Supplies (OM&S) – Spare Engines in Quarter 2 of FY 2012.
- Air Force assertion for existence and completeness audit readiness of and OM&S – Missile Motors in Quarter 2 of FY 2012.

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Six Defense Agencies made the following nine assertions in FY 2012:

- Defense Technical Information Center assertion for Appropriations Received in Quarter 1.
- U.S. Special Operations Command assertion for Appropriations Received and assertion for the existence and completeness of Combatant Craft in Quarter 2.
- Defense Advanced Research Projects Agency assertion for Reimbursable Work Orders and assertion for Civilian Pay in Quarter 2.
- Defense Contract Management Agency assertion for Appropriations Received in Quarter 2.
- Missile Defense Agency assertion for Appropriations Received and assertion for the existence and completeness of Military Equipment - Sensors in Quarter 2.
- Defense Threat Reduction Agency assertion for Appropriations Received in Quarter 3.

### CLEAN OPINION ON NAVY MILITARY EQUIPMENT



The Department of the Navy (DON) received a clean opinion in the DoD OIG's January 19, 2012, independent auditor's report on DON's Existence, Completeness, and Rights Attestation of the Navy's ships and submarines, Trident missiles, and satellites.

The Navy's ships and submarines, Trident missiles, and satellites, along with aircraft and ordnance, represent DON's most critical assets and have the greatest impact on the Balance Sheet. Together, these mission critical assets account for approximately 83 percent of the unaudited Net Book Value of the General Property, Plant, and Equipment and approximately 61 percent of the unaudited net book value for Operating Materials and Supplies amount reported on the

DON Balance Sheet. A DoD OIG examination of aircraft is scheduled to be completed in June.

### SFIS VALIDATIONS

Beginning in 2010, the Office of the Deputy Chief Management Officer and the Office of the Deputy Chief Financial Officer began independent assessments of the Department's ERPs and business systems to determine their compliance with Standard Financial Information Structure (SFIS) and the U.S. Standard General Ledger (USSGL) requirements. The Department's common business language, SFIS, standardizes the data elements and the logic used to post transactions in numerous DoD financial systems. Systems compliance with SFIS and USSGL contributes to the Department's audit readiness by ensuring standard, consistent accounting treatment of transactions.

The SFIS and USSGL assessments examine the ERP system's SFIS configuration, USSGL posting logic, ability to interface with other systems, and the system's financial reporting capability. Approximately 250 business rules within each ERP system are evaluated. The SFIS compliance validations contribute to enterprise-level data being recorded in a consistent and standard manner for financial statements, external reporting, and internal use and analysis.

Assessments completed thus far have identified issues with the chart of accounts, posting logic, and data exchanged between business partners through system interfaces. Corrective actions are in process to address these issues and, when complete, will enhance the accuracy, reliability and, therefore, auditability of the data processed through the systems. The Department has performed 31 system validations and plans to complete another 25 system validations by December 2012.

### DAI DEPLOYED

The Defense Agencies Initiative (DAI) system provides fully integrated financial management and budgeting capabilities to many of the Defense Agencies and other organizations. The benefits of DAI implementation include:

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- More accurate and timely financial information and reporting.
- Ability to track detailed financial transactions across business events.
- Standardized system capabilities via one shared instance of the software to ensure participating Defense Agencies comply with government and statutory regulations.
- Increased visibility of financial information.

Since the November 2011 FIAR Report, four additional Defense organizations have implemented DAI: TRICARE-Headquarters, Defense Threat Reduction Agency, Defense Prisoner of War/Missing Personnel Office, and Defense Technical Security Administration. Including these agencies, DAI Core Financials has been deployed in 8 Defense organizations with over 7,000 users. Additionally, DAI Time and Labor is operating in more than 10 agencies, as a critical foundation for cost management and cost accounting. In 2012, DAI will deploy to an additional five Defense Agencies, including the Defense Advanced Research Projects Agency and the Defense Security Service.

The DAI will improve the agencies' ability to achieve and sustain auditable SBR balances. The DAI, which meets federal systems requirements, will provide essential accounting functionality needed for auditability, such as audit trails from general ledgers to subsidiary ledgers and to transaction-level supporting documentation. The agencies using DAI have developed their FIPs consistent with the implementation schedule.

## ARMY GFEBS FULL DEPLOYMENT



When fully deployed in 2012, the General Fund Enterprise Business System (GFEBS) will have more than 50,000 users across 211 locations worldwide and will impact nearly every Army organization and function. A web-based financial, asset, and accounting management system, GFEBS replaces numerous financial databases all of which were on different cycles. The real-time

nature of GFEBS has reduced the need for data calls and gives the Army more accurate data on funds availability. The final deployment wave will be completed in July 2012. Full deployment of GFEBS will be a major change for the way the Army does business.



## AIR FORCE SPACE COMMAND PROGRESS

The Air Force Space Command (AFSPC) models a back to basics approach to audit readiness. The AFSPC has been focusing on enforcing internal controls, validating appropriate user access to systems, and making sure budget and accounting processes are timely and accurate. Activities have centered on three broad goals:

- Ensuring consistent and clear communications.
- Identifying key risks and corrective actions to achieving audit readiness.
- Institutionalizing directives and policies that support audit readiness.

Today, the AFSPC touts the lowest civilian pay reject rate in the Air Force and has realized \$1 million in cost avoidance by eliminating manual spreadsheets and redundant data entry by timekeepers. Additionally, when the AFSPC modified and tested for the Air Force the Navy's automated Managers' Internal Control Program, process time was reduced by 7,200 hours across the command. By developing a new certified invoice report to expedite payments, the AFSPC eliminated \$132,000 in interest penalty payments annually.

Small improvements at the lowest levels are having a big impact. For example, most major commands average three to five vouchers out of balance each month. Over the past 14 months, AFSPC had only three vouchers out of balance. Standardized training and tools, as well as monthly review of metrics at the MAJCOM Comptroller-level and quarterly reviews with Wing Comptrollers and staff ensure improvements are sustained.

### FIAR TRAINING

Nearly 2,000 DoD personnel have attended the FIAR professional development courses, and the high demand for training continues. Since October 2011, 27 training sessions have been conducted across the country.

The FIAR training series comprises four Tier I courses and two Tier II courses. Tier I courses enhance Department-wide knowledge and understanding of the FIAR goals and priorities, introduce the DoD FIAR Guidance, and reinforce the Department's internal control over financial reporting requirements. Tier I training is currently being converted to web-based to allow for broader delivery. Tier II courses allow for hands-on experience and application of the FIAR methodology as it relates to Waves 2 and 3 of the FIAR Strategy (discussed in Appendix 2). The FIAR Tier I and Tier II training courses were approved for Continuing Professional Education credits in accordance with the standards established by the National Association of State Boards of Accountancy.

The Department has also developed FIAR 100, a one-hour session for DoD executives and senior leadership. The FIAR 100 course helps participants better understand the affect operations have on financial management and audit readiness, and identify initiatives at the operational level that will help the Department achieve auditability.

### DOD FINANCIAL MANAGEMENT CERTIFICATION PROGRAM

The National Defense Authorization Act (NDAA) for FY 2012 Section 1051 established a DoD Financial Management Certification Program for the Department's financial management workforce, similar to the successful acquisition workforce certification program. With the authority for the program in place, the goals and proposed way ahead for the program are as follows:

- Advance the professionalism of the DoD financial management workforce.
- Strengthen public confidence in DoD financial management.
- Broaden the competencies and experience of the financial management workforce of other DoD business operations (e.g., Acquisition).

The program's framework includes the following characteristics:

- The program will be mandatory for all financial management positions, and each position will be coded at Certification Level 1, 2, or 3 (similar to the acquisition workforce certification program).
- Personnel currently in financial management positions will have approximately 24 months to achieve certification.
- The program will be competency-based, with financial management and leadership courses aligned with competency requirements at each certification level.
- Each certification level will have DoD financial management experience requirements, and Level 3 will include a mandatory developmental assignment.
- Once certification is achieved, there will be a continuing professional education requirement.

The program is in a developmental stage but already has broad support across the financial management community. A Department Directive and DoD Instruction are being developed, and the program will be piloted in FY 2012.

The Department's Financial Management Certification Program is expected to have a significant impact on achieving and sustaining the Department's goal of auditable financial statements by increasing the competencies and capabilities of the financial management workforce.

## **THE COMMANDER'S CHECKLIST**

Commanders use funding to execute DoD missions, and therefore, they are responsible for the financial management of the funds under their control. Local systems of record must be accurate and complete. To help the Department succeed in becoming audit ready, the OUSD(C) has prepared a Commander's Audit Readiness Checklist that is being made available to the Military Departments and distributed to other Defense organizations.

The checklist provides Commanders with the basic actions their organization should take to determine whether they are audit ready and, if not, identify areas for improvement. The checklist also helps Commanders assess the efficiency of their organization and validate how well each function performs.

By completing the checklist, each Commander ensures documentation to support financial statements during an audit is available for each stage of the funding lifecycle. Seven major uses of funds are included: Annual Funding, Military Pay, Civilian Pay, Contracts and Purchase Orders, Reimbursable Work Orders – Acceptor, Reimbursable Work Orders – Grantor, MILSTRIP, as well as the existence and completeness of assets.

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## II. Army Audit Readiness Plans

Led by the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C)), the Army's senior leaders are actively engaged in financial improvement, and the Secretary of the Army directed all senior Army leaders to:

- Proactively support OASA(FM&C) audit readiness activities.
- Identify a single point of contact who is responsible for coordinating audit readiness activities within their organization.
- Include audit readiness goals in the annual performance plans of all relevant members of the Army's Senior Executive Service.

To achieve the Department's FIAR objectives, the Army has deployed resources and developed an infrastructure to perform financial improvement activities throughout the organization. This infrastructure is responsible for defining and executing the Army's Financial Improvement Plan (FIP), which is maintained by the OASA(FM&C) and includes specific, measurable actions necessary to remedy audit readiness impediments. Some of these impediments include:

- Low organizational audit readiness awareness.
- Acquisition and retention of supporting documentation.
- Hesitance in the field to support audit readiness visits.
- Tendency to see field teams as auditors.
- Lack of or outdated standard operating procedures to support effective controls.

The OASA(FM&C) has governance methods in place to mitigate impediments to audit readiness.

To communicate the Army's audit readiness requirements, the OASA(FM&C) is using numerous forums to increase awareness and support across the Army, including FIP In-process Reviews, Audit

Committee meetings, Senior Leader Steering Group meetings, and the annual Army Financial Improvement Workshop. These forums ensure key business process owners understand their role in the Army's approach to achieving audit readiness and have an opportunity to provide progress reports.

In addition to these important sessions, the Army communicates its audit readiness strategy to a broader audience with several web-based and print media.



The Army provides regular updates to business process owners across the Army through a quarterly newsletter, *The FIP Report*. It provides updates on audit readiness activities, information on upcoming training, and other current financial management topics. The first newsletter was published in February 2011.

The Army developed an audit readiness training curriculum in 2011 to ensure personnel at all levels have the knowledge and skills needed to function effectively in an audit ready environment. The training offers



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a comprehensive approach to audit preparation and awareness, as well as improvements to business processes that support audit readiness.

Classroom training is instructor led and based on the following framework:

- Foundation (Army Audit Readiness and Army FIP courses)
- Readiness (Internal Control, Testing, and Corrective Action courses)
- Sustainment (Business Process Internal Control courses)

Since January 2012, over 3,600 Soldiers and civilians attended Foundation, Readiness, and Sustainment courses. The current training audience includes Army senior leadership, process owners, installation internal review, and DFAS personnel. The Army is developing computer-based training to reach broader audiences and to enable annual sustainment training.

In February 2012, the Army developed a guide, *The Audit Readiness Command and Installation Guide*, for Commands and installations to use in preparing for audits. The guide provides a description of key supporting resources available to Commands and installations for becoming audit ready. It also includes a description of key internal control activities identified for each Command and installation, including authoritative guidance and policies requiring the internal control activities. The guide discusses the common internal control deviations discovered by Army audit readiness teams during discovery and testing site visits.

The Army has fully resourced and is executing a comprehensive audit readiness plan to allow it to achieve the Department's and congressionally-mandated financial improvement and audit readiness requirements and, more importantly, sustain these improvements. The Army's approach is aligned with the deployment of modern financial systems and focuses heavily on training and developing Army personnel across all business processes to support and sustain financial improvement.

## AUDITOR ISSUES QUALIFIED AUDIT OPINION FOR SBR EXAM 1

The Army reached an important milestone in November 2011 with positive findings on the first examination of its General Fund SBR, when an IPA firm issued a qualified audit opinion. The IPA conducted the examination of five business processes at the General Fund Enterprise Business System (GFEBS) Wave 1 sites at Forts Benning, Jackson, and Stewart. The IPA examined approximately 2,500 supporting documents and found consistent, standardized business processes across all three sites. Since the examination, the Army developed corrective actions to address all of the findings in the IPA's audit report. Examples of the findings include lack of documentation to support testing and lack of authorization evidence for documents requiring review and approval. The Army is on schedule to begin a second examination in Quarter 4 of FY 2012.

## ARMY NATIONAL GUARD EXISTENCE AND COMPLETENESS SITE VISITS

The Army National Guard (ARNG) began existence and completeness audit readiness site visits to ARNG units in 54 states and territories. The visits began with Florida, Alabama, and Georgia in December 2011. In January 2012, the next round of visits took place in California and Texas. The National Guard Bureau plans to share lessons learned with other states and territories as they become available.

The ARNG participates in the Command Supply Discipline Program (CSDP) to improve equipment accountability and to ensure Army supply procedures are followed. If units are comfortable performing CSDP inspections, they should be well prepared for audit readiness site visits, since the internal controls are the same.

Much of the Guard's preparation has come through its participation in the Property Accountability Campaign, which is directed by the Army Chief of Staff. Through the submission of quarterly reports from each



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of the Guard's 54 states and territories, the Bureau has shown improvements in all property accountability categories. The ARNG progress includes implementation of Planning Resource for Infrastructure Development and Evaluation, which is the accountable property system of record for ARNG real property. In addition, ARNG facilitates existence and completeness site visits to assess the status of audit readiness throughout the organization.

## FISCAM ASSESSMENTS

The Army audit readiness effort requires control assessments of business and feeder systems that will continue to be operational in FY 2017. The assessments include evaluating, documenting, and testing the design and operating effectiveness of key internal controls critical to financial reporting. The business system control assessments ensure Army systems will successfully pass Financial Information Systems Control Audit Manual (FISCAM) audits.

The FISCAM assessments include GFEBs and the Global Combat Support System-Army (GCSS-A) system. These systems utilize SAP standard software and modules, and have been implemented to support the Army's audit readiness goals. The Army FIP Controls Team conducted an assessment of GFEBs and is in the process of reviewing GCSS-A controls. The assessments encompass four areas of controls:

- **Information Technology General Controls:** Basic systems management, including Operations, Security and Release (Configuration) Management
- **Data Integrity Management:** Interface Controls
- **Access Management:** User Access and Segregation of Duties
- **Business Process Controls:** Systematic Configurable Controls

The assessments align with the DoD FIAR Guidance and other key federal requirements, specifically the FISCAM, Federal Information Security Management Act of 2002, and Office of Management and Budget (OMB) Circulars A-123, Management's Responsibility for

Internal Control, and A-130, Management of Federal Information Resources.

The FISCAM review of GFEBs began in January 2011, finished in March 2012, and included key controls critical to the upcoming examination of the General Fund SBR processes at GFEBs deployment Waves 1 and 2. Observations from this review indicated risks in system access and security monitoring. For example, multiple users shared the same user identification to access system administrative privileges. Also, a formal process did not exist for reviewing system privileges, users' activities, and security logs. The Army created corrective actions with a milestone schedule to help GFEBs manage the control gaps and worked with the GFEBs program office to remediate and retest the high risk items. The risks will be remediated by May 2012 and validated in FY 2012 by an IPA firm.

The GCSS-A assessment began in September 2011 with a focus on the status of key policies and procedures. Testing will begin in Quarter 3 of FY 2012 and finish by September 30, 2012. Upon the conclusion of testing, the Army will remediate control gaps by December 31, 2012, so that GCSS-A can be included in the FY 2013 General Fund SBR examination of all GFEBs sites.

## MILITARY PAY AUDIT READINESS

The Army and DFAS implemented a new process in October 2011 that includes monthly reconciliations of detailed military personnel pay statements to summary financial reporting records. The Army is working with DFAS to retain readily accessible historical payroll files by fiscal year to establish automated populations for audit sampling. Because validation between personnel and payroll records is done monthly, the value of retaining personnel files for prior years is being evaluated as part of the overall documentation of the processes and controls for military pay. The Army is working with DFAS to develop a matrix of each entitlement, supporting documentation, and document retention. This effort includes planning, development, and implementation of procedures for the maintaining the documents with



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an initial focus on a solution using the interactive Personnel Electronic Records Management System. Military pay reconciliations and other audit readiness efforts are significant accomplishments that advance the Army's audit readiness.

## AUDIT READINESS AND BUSINESS PROCESS/CORRECTIVE ACTION TRAINING

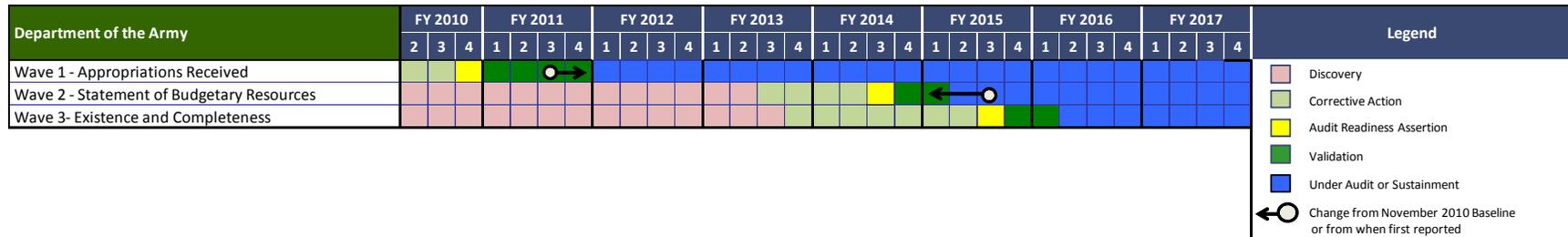
In January 2012, the Army began delivering training covering SBR audit readiness, business process internal controls, and corrective actions.

The training is designed to provide a consistent audit readiness message and understanding. The training ensures all levels of personnel understand SBR audit readiness activities, business process

controls, internal control activities, testing, corrective actions, and Army FIP requirements. As of February 2012, the OASA(FM&C) delivered training to over 10 installation sites, which include multiple commands and organizations at each installation site. There have been over 3,600 personnel trained. The Army is on schedule to deliver training to installation sites that account for 70 percent of the funds executed in GFEBs by December 2012.

Figure II-1 provides a summary view of the Army audit readiness plans for Wave 1, Appropriations Received; Wave 2, SBR; and Wave 3, Existence and Completeness of Mission Critical Assets. The figure also identifies milestone changes from the baseline established in the November 2010 FIAR Plan Status Report.

**Figure II-1. Army Summary Audit Readiness Plans by Wave**





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## STATEMENT OF BUDGETARY RESOURCES (WAVE 1 & WAVE 2)

In accordance with Department FIAR goals and objectives, the NDAA for FY 2010, and Under Secretary of the Army guidance, the Army initiated a General Fund SBR discovery and evaluation effort in March 2010.

### Appropriations Received (Wave 1)

The Army asserted audit readiness of the General Fund SBR Appropriations Received line item on September 28, 2010, and an IPA issued an unqualified opinion on the audit readiness assertion on August 19, 2011. This clean opinion marks a significant accomplishment in the Army's General Fund SBR audit readiness efforts. While the IPA identified four findings, the Army previously identified and implemented corrective actions to improve oversight of the monthly reconciliations conducted by DFAS and to establish and maintain local standard operating procedures for the funds distribution and reporting processes. The Appropriations Received line on the FY 2010 General Fund SBR totaled \$232 billion, accounting for approximately 70 percent of the Army's total budgetary resources.

### Statement of Budgetary Resources (Wave 2)

The Army synchronized its SBR audit readiness site visit schedule directly with the GFEBS deployment plan because of the system's importance to Army audit readiness. By integrating the GFEBS deployment with SBR discovery and evaluation visits, the Army will validate its business processes and quickly discover system or process deficiencies in the GFEBS environment. Along with performing discovery and evaluation site visits at GFEBS locations, the Army, jointly with DFAS, is conducting discovery, evaluation, and testing for Government Purchase Card, Civilian Pay, Miscellaneous Payments, Supply Requisitions, Military Pay, Contracts - Standard Procurement System, Reimbursable Orders, Temporary Duty Travel - Defense Travel System (DTS), Financial Reporting, and Fund Balance with

Treasury (FBWT) business processes. Needed process changes or internal control modifications identified through the course of these site visits become tasks in the Army FIP and, upon full completion of these corrective actions, the Army will conduct follow-up testing to ensure that the controls are operating as expected.

The Army is applying lessons learned from organizations that are preparing for, currently undergoing, or have successfully completed a financial statement audits, including the Navy, Air Force, USMC, and U.S. Army Corps of Engineers. The Army has made significant progress toward SBR auditability because of these lessons learned, including a focus on document retention requirements, systems controls, and personnel training and development to sustain audit readiness. Since the start of the discovery and evaluation effort, the Army has conducted site visits at the GFEBS Wave 1 locations - Forts Stewart, Jackson, and Benning. The site visit teams have documented budget execution and monitoring processes for budgetary and reimbursable authority (including allotments and suballotments), obligations, and disbursements. The teams have identified risks and potential weaknesses during the review of budget execution processes, utilizing past Government Accountability Office (GAO), DoD OIG, and Army Audit Agency (AAA) audit reports. In addition, the Army developed test plans based on the key control objectives included in DoD FIAR Guidance, as well as the key controls identified within the GFEBS environment.

The Army's first attempt at testing manual process controls at GFEBS Wave 1 sites uncovered a need for training at installation level. Because of the stove-piped nature of the legacy business environment, many members of the staff did not understand how their role fit within Army business processes. In addition, because of the drastic change from legacy systems to modern ERP systems, many individuals had not been trained in the use of GFEBS in support audit readiness testing or audit requests, which require different processes than normal day-to-day business processes.



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During phase 1 testing at the GFEBS Wave 1 locations in August 2010, the Army found that GFEBS users had difficulty retrieving supporting documentation and information from GFEBS for audit requests. Therefore, the OASA(FM&C) created the SBR Audit Handbook to provide procedures for installation resource management organizations to follow in response to audit testing requirements. The Army conducted its second phase of testing for budget execution processes at the GFEBS Wave 1 locations from January 30 to February 11, 2011. The SBR Audit Handbook assisted installation organizations to more effectively support the retesting in February 2011.

During the retesting in February 2011, the Army continued to identify additional GFEBS training requirements, some failed process controls, and potential system changes needed in GFEBS. As the discovery, evaluation, and testing activities expanded to GFEBS Wave 2 locations, the Army developed a clearer picture of the magnitude of manual process control failures. In addition, GFEBS general and application controls assessment work identified automated system controls to address manual control failures.

In November 2011, an IPA issued a qualified opinion for GFEBS Wave 1 sites. The scope of the examination included five business processes at the three GFEBS Wave 1 locations – Forts Jackson, Stewart, and Benning. The IPA firm found consistency of standardized business processes across all three sites. The audit report listed one material weakness, one significant deficiency, and one material deviation. During the examination, the IPA findings identified best practices to improve the Army's business processes. A weakness that stood out was the lack of supporting documentation to support testing.

The Army will employ an IPA to conduct two additional examinations, one in FY 2012 and another examination in FY 2013. The FY 2012 examination encompasses nine business processes, GFEBS controls, and DFAS operations. The FY 2013 examination encompasses all Army business processes within the GFEBS environment (not including military pay, which will not be recorded in and reported from

GFEBS until FY 2014), as well as GCSS-A system controls. These examinations will serve a critical role by providing an external validation of the Army's audit readiness, as well as recommendations for business process and audit support improvements. The Army plans to assert audit readiness of the General Fund SBR by June 2014.

## SBR Assessable Units

Figure II-2 provides a summary view of the Army audit readiness plans for the SBR by assessable unit. It also identifies the changes to milestones from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported. The SBR assessable units are:

- Appropriations Received
- Funds Distribution
- Contracts (Standard Procurement System))
- Temporary Duty Travel (Defense Travel System)
- Miscellaneous Payments
- Government Purchase Cards
- Supply
- Reimbursables – Inbound (Acceptor)
- Reimbursables – Outbound (Grantor)
- Civilian Pay
- Military Pay
- Financial Reporting
- Fund Balance with Treasury





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## Appropriations Received

### Strategy Summary

- Army asserted audit readiness of the General Fund SBR Appropriations Received line item on September 28, 2010, and an IPA issued an unqualified opinion on August 19, 2011.
- Army identified and implemented corrective actions to improve oversight of the monthly reconciliations conducted by DFAS and to establish and maintain local standard operating procedures for the funds distribution and reporting processes.
- Corrective actions were addressed before the IPA started its engagement
- The IPA confirmed that all corrective actions were addressed.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Conduct Balance Testing	✓
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Apportionments agree to total amount appropriated.	OASA(FM&C)	✓
Allotted amounts agree to total amount apportioned/appropriated.	OASA(FM&C)	✓
Current year funds are recorded accurately and are valid.	OASA(FM&C)	✓
Current year funds are recorded in the general ledger in the correct period.	OASA(FM&C)	✓
Current year funds are recorded accurately and are valid.	OASA(FM&C)	✓
Other activity (e.g., undistributed amounts) that affect the balance of the current year funds distributed within the organization are recorded accurately.	OASA(FM&C)	✓
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), DFAS	✓



# Department of the Army



## Funds Distribution

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute corrective action plans (CAPs) for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Current year funds distributed are recorded timely in the Distribution System.	OASA(FM&C)	05/2014
Current year funds distributed are recorded accurately in the Distribution System and are valid.	OASA(FM&C)	05/2014
Current year sub-allotments are recorded timely.	OASA(FM&C)	05/2014
Current year sub-allotments are recorded accurately and are valid.	OASA(FM&C)	05/2014
Current year funds distributed are recorded timely in the General Ledger.	OASA(FM&C)	05/2014
Current year funds distributed are recorded accurately in the General Ledger and are valid.	OASA(FM&C)	05/2014
Other activity (e.g., undistributed amounts) is recorded accurately in the General Ledger balance with current year funds distributed within the organization.	OASA(FM&C)	05/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C)	05/2014



# Department of the Army



## Contracts (Standard Procurement System)

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	OASA(FM&C), DFAS	05/2014
Obligations are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Accruals and/or payables are recorded timely.	OASA(FM&C), DFAS	05/2014
Accruals and/or payables are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Disbursements are recorded timely.	OASA(FM&C), DFAS	05/2014
Disbursements are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Stale or invalid obligations and accruals are removed.	OASA(FM&C), DFAS	05/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Temporary Duty Travel (Defense Travel System)

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Travel information is recorded timely.	OASA(FM&C), DFAS	05/2014
Travel information is valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Travel costs are calculated correctly and are processed accurately.	OASA(FM&C), DFAS	05/2014
Travel obligations, expenses, accruals, and disbursements are recorded timely.	OASA(FM&C), DFAS	05/2014
Travel obligations, expenses, accruals, and disbursements are valid and recorded correctly.	OASA(FM&C), DFAS	05/2014
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	OASA(FM&C), DFAS	05/2014
Travel information is recorded timely.	OASA(FM&C), DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Miscellaneous Payments

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	OASA(FM&C), DFAS	05/2014
Obligations are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Accruals and/or payables are recorded timely.	OASA(FM&C), DFAS	05/2014
Accruals and/or payables are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Disbursements are recorded timely.	OASA(FM&C), DFAS	05/2014
Disbursements are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	OASA(FM&C), DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Government Purchase Cards

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	OASA(FM&C), DFAS	05/2014
Obligations are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Accruals and/or payables are recorded timely.	OASA(FM&C), DFAS	05/2014
Accruals and/or payables are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Disbursements are recorded timely.	OASA(FM&C), DFAS	05/2014
Disbursements are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	OASA(FM&C), DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Supply

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Obligations are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Accruals and/or payables are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Accruals and/or payables are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Disbursements are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Disbursements are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Reimbursables – Inbound (Acceptor)

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Unfilled customer orders are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Unfilled customer orders are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Revenue/IPAC collections are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Revenue/IPAC collections are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Unfilled customer orders and uncollected customer payments/accounts receivable are reviewed, and adjusted as necessary, at least three times per year.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Reimbursables – Outbound (Grantor)

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Obligations are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Accruals and/or payables are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Accruals and/or payables are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Disbursements are recorded timely.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Disbursements are valid and recorded accurately.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	OASA(FM&C), G-4, IMCOM, TRADOC, FORSCOM, AMC, DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Civilian Pay

### Strategy Summary

- Provide internal control training to Army control owners.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Identify mitigating controls and/or substantive procedures to support assertion in absence of CAPs.
- Perform test of effectiveness over internal controls subsequent to training.
- Issue a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	12/2012
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Civilian personnel actions are valid and recorded accurately.	OASA(FM&C), G-1, CHRA	05/2014
Civilian personnel actions are recorded timely.	OASA(FM&C), G-1, CHRA	05/2014
T&A information is valid and recorded correctly.	OASA(FM&C), G-1, CHRA	05/2014
T&A information is recorded timely.	OASA(FM&C), G-1, CHRA	05/2014
Bi-weekly payroll is calculated and processed correctly.	OASA(FM&C), DFAS	✓
Payroll obligations, expenses, accruals, and disbursements are valid and are correctly recorded.	OASA(FM&C), DFAS	05/2014
Payroll obligations, expenses, accruals and disbursements are recorded timely.	OASA(FM&C), DFAS	05/2014
Stale obligations and accruals are removed from the general ledger(s) timely.	OASA(FM&C), DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Military Pay

### Strategy Summary

- Document end-to-end processes (including DFAS processes).
- Perform test of design and effectiveness over internal controls.
- Develop and complete corrective actions for known deficiencies, including:
  - Retention of readily accessible historical payroll files.
  - Develop a matrix of entitlements, supporting documents, and point of documentation retention.
- Provide a report to Commands reflecting results of testing.
- Ensure legacy processes and systems are auditable to support the 2014 SBR in advance of IPPS-A full deployment in 2017.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	03/2014
Process Documentation	✓
Test Plans	03/2013
Conduct Control Testing	03/2013
Conduct Balance Testing	03/2013
Implement Corrective Actions	12/2013
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Personnel information is recorded timely.	G-1	05/2014
Personnel information is valid and recorded accurately.	OASA(FM&C), G-1	05/2014
Payroll is calculated and processed accurately.	OASA(FM&C), DFAS	05/2014
Payroll obligations, expenses, accruals, and disbursements are recorded timely.	OASA(FM&C), DFAS	05/2014
Payroll obligations, expenses, accruals, and disbursements are valid and recorded accurately.	OASA(FM&C), DFAS	05/2014
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	OASA(FM&C), DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## Financial Reporting

### Strategy Summary

- Identify controls to mitigate all significant risks.
- Perform test of design and effectiveness over internal controls.
- Complete and execute CAPs for known deficiencies and weaknesses.
- Provide a report to Commands reflecting results of testing.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Conduct Balance Testing	✓
Implement Corrective Actions	12/2012
Validate Corrective Actions	03/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Trial balances (or equivalents) are produced timely.	OASA(FM&C), DFAS	03/2014
Trial balances (or equivalents) are valid and accurate.	OASA(FM&C), DFAS	03/2014
Trial balances (or equivalents) are loaded into DDRS-B timely.	OASA(FM&C), DFAS	03/2014
Trial balances (or equivalents) are complete and accurately loaded into DDRS-B.	OASA(FM&C), DFAS	03/2014
Trial balance data in DDRS-B is loaded into DDRS-AFS timely.	OASA(FM&C), DFAS	03/2014
Trial balances data is accurately loaded from DDRS-B into DDRS-AFS.	OASA(FM&C), DFAS	03/2014
Adjustments are recorded timely in DDRS-B and DDRS-AFS.	OASA(FM&C), DFAS	03/2014
Adjustments recorded in DDRS-B and DDRS-AFS are valid and accurate.	OASA(FM&C), DFAS	03/2014
SBR, related footnotes and accompanying information is completed timely.	OASA(FM&C), DFAS	03/2014
SBR, related footnotes and accompanying information is valid and accurate.	OASA(FM&C), DFAS	03/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	03/2014



# Department of the Army



## Fund Balance with Treasury

### Strategy Summary

- Identify controls to mitigate all significant risks.
- Complete and execute CAPs for known deficiencies and weaknesses to include implementation of an automated tool for reconciliation with Treasury.
- Perform test of effectiveness over internal controls.
- Provide a report to Commands reflecting results of testing.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	02/2013
Process Documentation	✓
Test Plans	08/2012
Conduct Control Testing	08/2012
Conduct Balance Testing	02/2013
Implement Corrective Actions	03/2013
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Disbursements and collections are reported timely.	OASA(FM&C), DFAS	05/2014
Disbursements and collections are valid and accurately reported.	OASA(FM&C), DFAS	05/2014
Treasury accounts related to the Component are reconciled monthly within required timeline.	OASA(FM&C), DFAS	05/2014
Treasury reconciliations, including general ledger and disbursing system data, are accurate.	OASA(FM&C), DFAS	05/2014
Reconciling differences and budget clearing account items are identified at the transaction level.	OASA(FM&C), DFAS	05/2014
Reconciling and budget clearing account items are valid, appropriately resolved, and the correct amount.	OASA(FM&C), DFAS	05/2014
Material systems achieve the relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), PEO-EIS, DFAS, DLA	05/2014



# Department of the Army



## EXISTENCE AND COMPLETENESS OF ASSETS (WAVE 3)

The Army's status and plans for achieving the existence and completeness priority for mission critical assets (i.e., Military Equipment, General Equipment, Real Property, and Operating Materials and Supplies) is provided in this section. Although Inventory is a category of mission critical assets, the Army is not planning to test inventory items for existence and completeness until work begins on the Army's Working Capital Fund Financial Statements.

As deficiencies are identified in asset management processes, the Army develops and includes corrective action tasks in the FIPs and monitors the implementation of the appropriate control activities.

### Existence and Completeness Assessable Units

The following are the existence and completeness assessable units in the Army FIP. Figure II-3 provides a summary view of the Army audit readiness plans for the existence and completeness assessable units. It also identifies the changes to milestones from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported. A separate chart follows providing the audit readiness status and progress of each assessable unit.

- Military Equipment
- General Equipment
- Real Property
- Operating Materials and Supplies (OM&S)

### Military Equipment and General Equipment

The audit readiness approach for military equipment and general equipment follows the SBR approach. Teams perform internal control and substantive testing (e.g., transaction completion testing, transaction

authority testing, physical inventory re-performance, reverse testing of asset records) at Army installations.

As part of the installation-level work, the Army prepares process narratives, flowcharts, and control assessments for asset lifecycle processes and executes control testing for military equipment and general equipment for control activities found to be appropriately designed. The Army assists business process owners with implementing corrective actions to address deficiencies. In addition, internal review offices monitor the implementation of corrective actions to ensure sustainment of an auditable environment after the initial audit readiness contact.

The Army plans to assert the existence and completeness of military equipment and general equipment by December 31, 2013. This interim milestone assertion is an important incremental step toward preparing auditable financial statements by September 30, 2017.

### Operating Materials and Supplies

The initial OM&S approach is focused on Class V (ammunition), the largest OM&S class. The Army identified three "Quick Win" missile programs, including the Hellfire, Javelin, and Tube-launched, Optically-tracked, Wire-guided (TOW) missiles to establish existence and completeness auditability. The OM&S approach follows the DoD FIAR Guidance and includes creating process flows, narratives, and conducting assessments of the internal control activities within the munitions lifecycle business processes of:

- Issues and Turn-Ins
- Maintenance or Renovation
- Re-warehousing
- Physical Inventory
- Demilitarization



# Department of the Army



The Army completed site visits at depots, arsenals, test centers, ammunition supply points, and other activities that manage OM&S in order to confirm audit readiness and prepare for the OM&S “Quick Wins” assertion by June 30, 2012. In addition to the “Quick Wins” testing, Army is evaluating the overall internal control environment at corresponding OM&S locations and looking for control gaps that require remediation prior to asserting all OM&S classes by December 31, 2013.

## Real Property

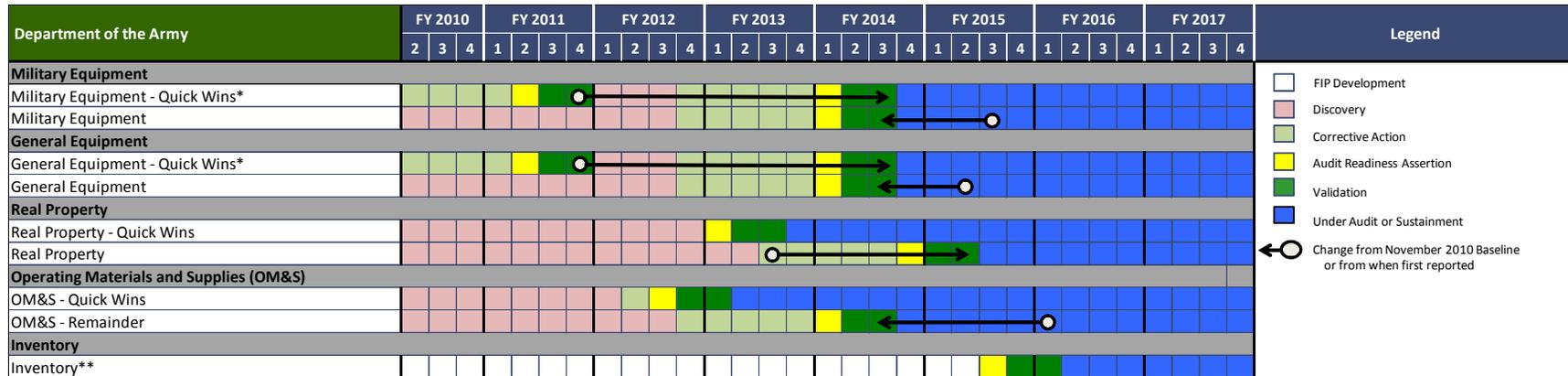
The Army initiated real property audit readiness site visits in preparation for the upcoming real property “Quick Wins” assertion in December 2012. The real property “Quick Wins” assertion will focus on approximately 20 installations that self-reported substantial progress in obtaining key supporting documentation for real property assets.

These efforts will expand to all installations in 2013. The Army’s real property audit readiness efforts align with the DoD FIAR Guidance and include developing process flows, narratives, risk analyses, and controls test plans. The Army will assert audit readiness for real property by September 30, 2014.

## Assessable Unit Progress and Plan Charts

Following Figure II-3 are existence and completeness Assessable Unit Progress and Plan Charts. There is one chart for each assessable unit being worked by the Army to achieve existence and completeness for the mission critical asset priority. These charts provide the Army strategy to achieve audit readiness, a milestone section identifying the dates for completing the FIAR phases, and the dates audit readiness outcomes will be completed, as well as the accountable entities.

**Figure II-3. Army Existence and Completeness Audit Readiness Plans**



\* Military Equipment (ME) and General Equipment (GE) Quick Wins have been incorporated into the audit readiness work for all ME and GE.  
 \*\* Inventory existence and completeness audit readiness will be worked concurrently during FIAR activity for Army Working Capital Fund Financial Statements.



# Department of the Army



## Military Equipment

### Strategy Summary

- Complete and execute corrective action plans for known deficiencies and weaknesses across major command organizations maintaining accountability of assets, to include FORSCOM, AMC, IMCOM, ARNG, USARC, TRADOC, and others.
- Conduct internal control retesting and training for Army units and organizations.
- Transition financial reporting of military equipment and general equipment from legacy data sets to the Army APSR.
- Facilitate data conversion and interface development between Army information systems, PBUSE and GFEBS.
- Provide a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	06/2012
Process Documentation	06/2012
Test Plans	06/2012
Conduct Control Testing	06/2012
Implement Corrective Actions	06/2013
Validate Corrective Actions	09/2013
<b>Assertion</b>	<b>12/2013</b>

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	DCMA, Property Book Holders	09/2013
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	DCMA, Property Book Holders	09/2013
Disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Property Book Holders	09/2013
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Property Book Holders	09/2013
Changes to military equipment (condition, location) are recorded in the ASPR timely.	Property Book Holders	09/2013
Changes to military equipment (condition, location) are recorded accurately in the ASPR.	Property Book Holders	09/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), Army G-4, PEO-EIS, DLA, DFAS	09/2013



# Department of the Army



## General Equipment

### Strategy Summary

- Complete and execute corrective action plans for known deficiencies and weaknesses across major command organizations maintaining accountability of assets, to include FORSCOM, AMC, IMCOM, ARNG, USARC, TRADOC, and others.
- Conduct internal control retesting and training for Army units and organizations.
- Transition financial reporting of military equipment and general equipment from legacy data sets to the Army APSR.
- Facilitate data conversion and interface development between Army information systems, PBUSE and GFEBS.
- Provide a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Completion
Discovery	06/2012
Process Documentation	06/2012
Test Plans	06/2012
Conduct Control Testing	06/2012
Implement Corrective Actions	06/2013
Validate Corrective Actions	09/2013
<b>Assertion</b>	<b>12/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Property Book Holders	09/2013
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Property Book Holders	09/2013
Disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely	Property Book Holders	09/2013
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Property Book Holders	09/2013
Changes to general equipment (condition, location) are recorded in the ASPR timely.	Property Book Holders	09/2013
Changes to general equipment (condition, location) are recorded accurately in the ASPR.	Property Book Holders	09/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), Army G-4, PEO-EIS, DLA, DFAS	09/2013



# Department of the Army



## Real Property

### Strategy Summary

- Complete audit readiness discovery activities for “Quick Wins” installations.
- Execute corrective actions for known deficiencies and weaknesses across major command organizations maintaining accountability of assets.
- Conduct internal control re-testing and training for Army units and organizations.
- Distribute lessons learned and corrective actions to Army real property stakeholders.
- Provide a report to Commands reflecting results of testing.

### Milestones

FIAR Phases	Quick Win Completion	Completion
Discovery	07/2012	03/2013
Process Documentation	05/2012	06/2012
Test Plans	06/2012	06/2012
Conduct Control Testing	06/2012	03/2013
Implement Corrective Actions	09/2012	03/2014
Validate Corrective Actions	011/2012	06/2014
<b>Assertion</b>	<b>12/2012</b>	<b>09/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Quick Wins	Completion
Acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	IMCOM, AMC, ARNG, USARC	11/2012	06/2014
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	IMCOM, AMC, ARNG, USARC	11/2012	06/2014
Disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	IMCOM, AMC, ARNG, USARC	11/2012	06/2014
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	IMCOM, AMC, ARNG, USARC	11/2012	06/2014
Changes to real property (condition, location) are recorded in the APSR timely.	IMCOM, AMC, ARNG, USARC	11/2012	06/2014
Changes to real property (condition, location) are recorded accurately in the ASPR.	IMCOM, AMC, ARNG, USARC	11/2012	06/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	OASA(FM&C), OACSIM, DFAS, DLA	11/2012	06/2014



# Department of the Army



## Operating Materials & Supplies

### Strategy Summary

- The OM&S assertion for three missile programs (Javelin, Hellfire, and TOW) on schedule for June 2012.
- Complete and execute command level corrective action plans for known deficiencies/weaknesses.
- Complete draft assertion for OM&S Quick Win assessable units.
- Provide a report to Commands reflecting results of testing.

### Milestones (✓ = Completed)

FIAR Phases	Quick Win Completion	Completion
Discovery	✓	06/2012
Process Documentation	✓	06/2012
Test Plans	✓	06/2012
Conduct Control Testing	✓	06/2012
Implement Corrective Actions	04/2012	06/2013
Validate Corrective Actions	05/2012	09/2013
<b>Assertion</b>	<b>06/2012</b>	<b>12/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Quick Wins	Completion
Acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AMC	05/2012	09/2013
Acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	05/2012	09/2013
Disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AMC	05/2012	09/2013
Disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AMC	05/2012	09/2013
Changes to OM&S (condition, location) are recorded in the APSR timely.	AMC	05/2012	09/2013
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AMC	05/2012	09/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	OASA(MS&C), AMC, PEO EIS, DFAS, DLA	N/A	09/2013



# Department of the Army



## ENTERPRISE RESOURCE PLANNING SYSTEMS (ERPS)

Army auditability is dependent on establishing an audit ready systems environment that includes deploying ERPs and interfacing them with existing legacy business and financial systems. The Army ERPs are identified below and in Figure II-4, and there are charts that follow for each ERP that provide detailed information. Figure II-4 also identifies the changes to milestones from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported.

- General Fund Enterprise Business System (GFEBS)
- Logistics Modernization Program (LMP)
- Global Combat Support System – Army (GCSS-A)
- Integrated Personnel Pay System – Army (IPPS-A)

The GFEBS is the Army's General Fund web-enabled accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. The deployment schedule for GFEBS will occur in eight waves to thousands of users across the globe. The GFEBS will subsume over 80 legacy systems. Deployment of GFEBS will be complete by July 2012.

The LMP, the Army Working Capital Fund ERP, delivers a fully integrated suite of software and business processes that streamline the maintenance, repair, overhaul and planning, finance, acquisition, and supply of weapon systems, spare parts, services, and material to the warfighter. Fundamental to the Army's transformation efforts, LMP replaces a stove-piped legacy systems environment and enables the Army to leverage the power of precise, up-to-the-minute, enterprise-wide data and improved business processes. The Army is scheduled to complete its plan in July 2012 to initiate Army Working Capital Fund and LMP discovery, evaluation, and testing audit readiness activities, similar to the Army General Fund and GFEBS activities.

The GCSS-A integrates the Army supply chain, obtains accurate equipment readiness, supports split base operations, and receives up-to-date status on maintenance actions and supplies in support of the warfighter. The Army has deployed GCSS-A to two locations, Fort Irwin and Fort Bliss, and will have GCSS-A fully deployed by Quarter 4 of FY 2017. Audit readiness efforts began in September 2011.

The IPPS-A is the Army's planned integrated personnel and pay system that will ultimately subsume legacy personnel and pay systems and serve as a critical element of the Army's future systems environment. The Army is employing an incremental development and implementation strategy and approach for IPPS-A, capitalizing on Acquisition Reform initiatives to streamline efforts and release capability to Soldiers at the earliest possible date. The IPPS-A will be developed and implemented in two increments with multiple releases. The IPPS-A is pursuing a Milestone C decision for Increment I and a Milestone B decision for Increment II in Quarter 1 of FY 2013.

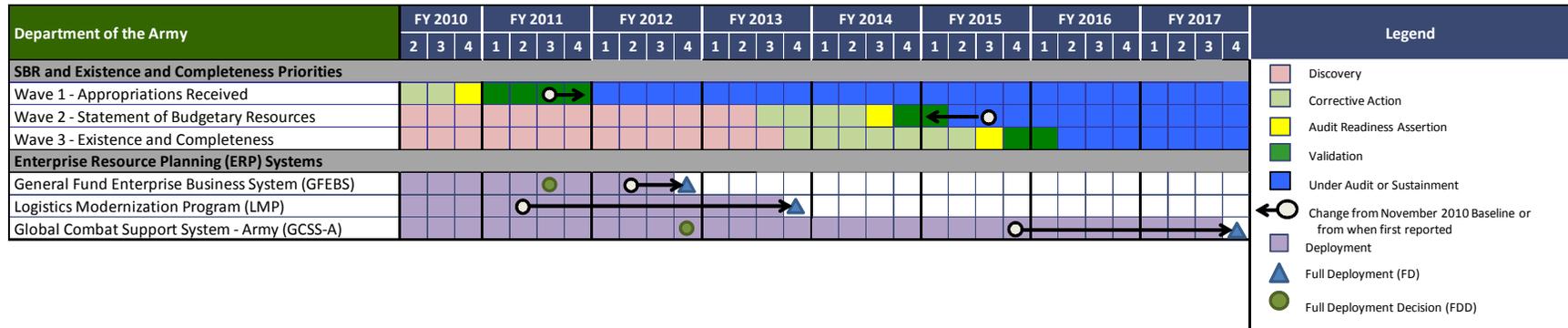
The Army has a federated approach to ERP systems implementation, particularly for GFEBS and GCSS-A. The GFEBS and GCSS-A deployment teams work together on the solution design to minimize ERP to ERP transaction-level interfaces. The Army's deployment of ERPs encompasses more than audit readiness. While auditable financial statements will be a vital output, more importantly the systems will allow Army leaders to more effectively manage its resources. The deployment of ERPs will result in a more efficient and effective organization, as business processes will be standardized and include effective automated internal controls.



# Department of the Army



Figure II-4. Army Audit Readiness and ERP Plans





# Department of the Army



## General Fund Enterprise Business System (GFEBS)

### Overview

- GFEBS is the Army’s General Fund current and future web-enabled accounting, asset management, and financial system used to standardize, streamline and share critical data across the active Army, Army National Guard, and Army Reserve. The deployment schedule for GFEBS included eight waves to thousands of financial users across the globe. GFEBS serves as the source for consolidated Army General Fund financial reporting. Releases are deployed by functionality.
- Currently, GFEBS is at the mid-point of deploying its eighth and final wave by July 2012.
- Army’s challenges associated with GFEBS have been typical of a large-scale, complex ERP system deployment. Internal assessments are underway to ensure that GFEBS meets all audit readiness requirements.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting	19
Legacy Systems to Be Sunsetting	107
Legacy Systems Interfaced to Date	5
Legacy Systems to Be Interfaced	0

### Program Cost

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
RDT&E	\$379.4	\$379.4
Procurement	\$196.7	\$286.3

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	12/2012	03/2013
Access Controls	12/2011	05/2012
Configuration Management Controls	12/2011	05/2012
Segregation of Duties Controls	12/2012	03/2013
Contingency Planning Controls	12/2012	03/2013
Completeness Controls	12/2012	03/2013
Accuracy Controls	12/2012	03/2013
Validity Controls	12/2012	03/2013
Confidentiality Controls	12/2012	03/2013
Availability Controls	12/2012	03/2013



# Department of the Army



## General Fund Enterprise Business System (GFEBS)

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A		06/2005	06/2005	0%
Milestone B		03/2008	03/2008	0%
Release/Wave 1	General Ledger Module (GLM), Budget Resource Management (BRM), Pay Management (PayM), Receivables Management (RecM)	04/2009	04/2009	0.5%
Milestone C	GLM, BRM, PayM, RecM, Cost Management (CM), Fund Balance with Treasury Mgmt (FBWTM)	05/2009	05/2009	0.6%
Release/Wave 2	GLM, BRM, PayM, RecM	04/2010	04/2010	2%
Release/Wave 3	GLM, BRM, PayM, RecM, CM, FBWTM, Property Management (PropM)	10/2010	10/2010	3%
Full Deployment Decision	GLM, BRM, PayM, RecM, CM, FBWTM	03/2011	06/2011	50%
Full Deployment	GLM, BRM, PayM, RecM, CM, FBWTM, PropM	01/2012	07/2012	70%

### Financial Reporting Impact

GFEBS serves as a key source for consolidated Army General Fund financial reporting.



# Department of the Army



## Logistics Modernization Program (LMP)

### Overview

- Sustain, monitor, measure, and improve the modernized National-Level logistics support solution.
- Deliver new and enhanced capabilities, and support DoD and Army ERP integration efforts.
- In addition, LMP is an accountable property system of record for a considerable portion of Army OM&S, specifically Class V (Ammo) equipment.
- Transition services from contractor to organic support without system performance degradation.

### Program Cost

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
AWCF – CIP	\$659.4	\$1,096.9
AWCF – OPS	\$826.9	\$3,082.1
OMA	\$88.7	\$189.1
BRAC	\$3.1	\$3.1

Notes to Table: To Date amounts are as of February 29, 2012.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	2 (8 CCSS, 42 SDS)*
Legacy Systems to Be Sunsetting	1 (CCSS NAMI)*
Legacy Systems Interfaced to Date	72
Legacy Systems to Be Interfaced	0**

Notes to Table:

\* 8 CCSS and 42 SDS refer to the number of instances of these legacy systems.

\*\* None planned. Dependent on Business Domain requirements to interface/subsume additional systems.

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	12/2012	06/2013
Access Controls	12/2012	06/2013
Configuration Management Controls	12/2012	06/2013
Segregation of Duties Controls	12/2012	06/2013
Contingency Planning Controls	12/2012	06/2013
Completeness Controls	12/2012	06/2013
Accuracy Controls	12/2012	06/2013
Validity Controls	12/2012	06/2013
Confidentiality Controls	12/2012	06/2013
Availability Controls	12/2012	06/2013



# Department of the Army



## Logistics Modernization Program (LMP)

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
CECOM Go-Live	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	07/2003	07/2003	0
AMCOM Go-Live	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	03/2009	05/2009	0
FFMIA Compliance (Blue Book ver 6.0)	Demonstration of LMP FFMIA Compliance with the Army Audit Agency – LMP determined to be “Substantially Compliant”	04/2007	04/2007	0
SAP Upgrade from 4.6c to ECC 6.0	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	10/2009	10/2009	0
TACOM/JM&L/ASC Go-Live	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	10/2010	10/2010	0
BEA Compliance (ver 8.0)	Program Compliance	09/2011	09/2011	0
March 2011 Functional Release	SFIS 8.0 Historical Financial Records Update	03/2011	03/2011	0
December 2011 Functional Release	GFEBs Interfaces , SFIS Compliance Capability, OSD Functional Financial Requirements, Constructive Receipts, improved Fed/Non Fed determination	12/2011	12/2011	0
BEA Compliance (ver 9.0)	Program Compliance	08/2012	08/2012*	0
Implement Governance, Risk and Compliance capability	Enhanced Access Controls and Segregation of Duties Management	12/2012	12/2012*	0
SFIS Compliance (ver 8.0)	Demonstrate remaining SFIS Business Rules with DCMO/BTA	12/2011	12/2012*	0
FFMIA Compliance (Blue Book ver Jan 2011)	Demonstration of LMP FFMIA Compliance with the Army Audit Agency	12/2011	09/2013*	0

\* Planned completion date as of March 8, 2012.

\*\* Some General Fund assets reside in LMP. However, General Fund budget authority is recorded in GFEBs.

### Financial Reporting Impact

The upcoming system compliance reviews are an important step toward relying on system controls within the LMP given its impact on the General Fund SBR and existence and completeness audit readiness. The impact on SBR is clear as existing integration between LMP and GFEBs consists of budget execution and obligation transactions. In addition, LMP is an APSR for a portion of Army OM&S. Future Army assertions for SBR and existence and completeness audit readiness must rely upon system controls given the volume of assets and transactions that flow through the system. Army is on track with meeting milestones to review GRC, SFIS, and FFMIA compliance for LMP.



# Department of the Army



## Global Combat Support System – Army (GCSS-A)

### Overview

- GCSS-A will provide enterprise wide visibility into various logistics areas and is a key enabler for the Army in achieving auditability.
- GCSS-A is being deployed in two Waves. Wave 1 will provide supply (warehouse) and financial capabilities at the tactical units and installation level, and Wave 2 will deploy maintenance, property book accountability, and additional financial capabilities to these units as well.
- GCSS-A completed Initial Operational Test and Evaluation with 2nd Brigade, 1st Armored Division in Quarter 1 of FY 2012 and is moving toward a Full Deployment Decision in Quarter 4 of FY 2012 to gain permission to begin fielding the ERP solution.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	0
Legacy Systems to Be Sunsetting	7
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	2

Note to Table: GCSS-A will sunset SARSS-1 and SARSS-2AC/B with its Wave 1 Deployment completion in FY 2015. With the Completion of Wave 2 Deployment, GCSS-A will sunset PBUSE, SAMS-E, SAMS-IE, FCM, and STANFINS (Partial) in Quarter 4 of FY 2017. Wave II will also include interfaces for two legacy Systems – SAAS-Mod and ULLS-AE.

### Program Cost

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
RDT&E	\$760.2	\$276.5
Procurement	\$100.7	\$939.2

Notes to Table:

\* To Date reflects October 1, 2001, through December 31, 2011, actual obligated total program.

\*\* At Completion reflects remaining funding available for FY 2012 and the Milestone C Army Cost Position (ACP) for FY 2013 – FY 2027.

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	06/2012	12/2012
Access Controls	06/2012	12/2012
Configuration Management Controls	06/2012	12/2012
Segregation of Duties Controls	06/2012	12/2012
Contingency Planning Controls	06/2012	12/2012
Completeness Controls	06/2012	12/2012
Accuracy Controls	06/2012	12/2012
Validity Controls	06/2012	12/2012
Confidentiality Controls	06/2012	12/2012
Availability Controls	06/2012	12/2012



# Department of the Army



## Global Combat Support System – Army (GCSS-A)

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A/B		07/2008	07/2008	9%
Milestone C		08/2011	08/2011	21%
Full Deployment Decision	Budget Resource Management (BRM), Cost Management (CM), Fund Balance with Treasury Management (FBWTM), General Ledger Management (GLM), Payment Management (PayM), Receivables Management (RecM)	08/2012*	08/2012*	27%
Initial Operating Capability (IOC)/ Initial deployment	BRM, CM, FBWTM, GLM, PayM, RecM	09/2012*	09/2012*	28%
Wave 1	BRM, CM, FBWTM, GLM, PayM, RecM	TBD	10/2014*	42%
Wave 2	BRM, CM, FBWTM, GLM, PayM, RecM	TBD	09/2017*	63%
Full Deployment	BRM, CM, FBWTM, GLM, PayM, RecM	TBD	09/2017*	63%

\* Planned date as of March 8, 2012.

### Financial Reporting Impact

GCSS-A Wave 1 will enable an initial capability in achieving financial audit readiness for supply transactions at the tactical unit and installation levels. When Wave 2 is complete, financial audit readiness also will include maintenance and property book accountability financial transactions at these levels as well.



# Department of the Army



## AUDIT READINESS RESOURCES

Army senior leaders are applying the right level of resources to achieve the FIAR goals and priorities even in this time of significant budget constraints. Balancing competing funding requirements with FIAR resource requirements needed to maintain momentum, progress, and achieve the auditability dates required by law is challenging.

The FIAR activities funded by the amounts in Figure II-5 include conducting audit readiness activities, hiring independent public accounting (IPA) firms to conduct validations and audits, and resolving financial system issues (i.e., achieving an audit ready systems environment).

**Audit Readiness** encompasses the resources for evaluation, discovery, and corrective actions of the Components and their service providers (e.g., DFAS) and includes documenting and modifying processes and

controls, identifying internal control deficiencies through testing and remediation of deficiencies, and evaluating transaction-level evidential matter and ensuring it is readily available. Resources for activities to test or verify audit readiness after completing corrective actions and preparation of management assertion packages are also needed.

**Validations and Audits** include the resources for validations, examinations, and financial statement audits conducted by IPAs.

**Financial Systems** includes the resources for designing and achieving an audit-ready systems environment, including ERP deployment costs. It also includes the resources to make needed and cost-effective changes to legacy systems that will be part of the audit ready systems environment. Financial system resources include design, development, deployment, interfaces, data conversion and cleansing, independent verification and validation and testing, implementation of controls and control testing, and system and process documentation.

Figure II-5. Army Audit Readiness Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Audit Readiness</b>	\$ 12	\$ 47	\$ 53	\$ 79	\$ 65	\$ 43	\$ 54	\$ 34
Process Review and Remediation	10	41	44	67	57	35	45	25
DFAS Audit Readiness Support		4	7	10	5	5	6	6
Internal Audit Costs	2	2	2	2	3	3	3	3
External Audit Costs	-	1	4	23	25	25	15	25
<b>Audit Readiness and Validations and Audits Subtotal</b>	\$ 12	\$ 48	\$ 57	\$ 102	\$ 90	\$ 68	\$ 69	\$ 59
<b>Financial Systems</b>								
Non-ERPs	\$ -	\$ -	\$ 4	\$ 2	\$ 4	\$ -	\$ 5	\$ -
General Funds Enterprise Business System	68	111	23	19	20	3	14	3
Logistics Modernization Program	245	177	156	283	120	118	115	115
Global Combat Support Systems - Army	175	257	278	260	212	278	270	258
Integrated Personnel and Pay System - Army	49	108	69	159	178	178	178	157
<b>Financial Systems Subtotal</b>	\$ 537	\$ 653	\$ 530	\$ 723	\$ 534	\$ 577	\$ 582	\$ 533
<b>Total Resources</b>	\$ 549	\$ 701	\$ 587	\$ 825	\$ 624	\$ 645	\$ 651	\$ 592



# Department of the Army

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## III. DON Audit Readiness Plans

The Department of the Navy (DON) is focused on achieving the FIAR priorities of:

- Budgetary Information, and
- Mission Critical Asset Information.

As shown in Figure III-1, the DON plans to assert audit readiness of its Statement of Budgetary Resources (SBR) in Quarter 4 of FY 2013.

A significant portion of DON military equipment assets were asserted as audit ready for existence and completeness in FY 2010, and the remainder of its mission critical assets will be audit ready incrementally through FY 2015.

To achieve these goals, the DON designed a comprehensive audit readiness strategy focused on strengthening internal controls over business processes and systems. As the strategy is executed and internal controls are improved, the DON will not only advance its audit readiness, but also enhance its ability to sustain an audit ready business and financial environment following assertion. The DON believes that improving its business processes is the only way to achieve and sustain audit readiness and the best way to understand and mitigate the risk of fraud, waste, and abuse while improve stewardship of taxpayer funds.

Coordinating at all levels of the Enterprise – from the Executive to the Field-level – and in close collaboration with service providers, the DON developed and implemented detailed plans that are aligned with and support the DoD audit readiness strategy.

Complementing the detailed plans, the DON is executing a governance process through a recurring Audit Committee framework. This Audit Committee is chaired by the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) and includes key stakeholders from within the DON, OUSD(C)/FIAR, DoD Inspector General (DoD OIG), Naval Audit Service (NAVAUDSVC), and

leadership from other DoD Components. Additionally, the DON conducts recurring roundtable meetings with all DON Budget Submitting Office (BSO) Comptrollers to align the strategy and discuss issues.



The DON also recognizes that audit readiness is not just a financial management objective. Accordingly, DON leadership formally established audit readiness Segment Functional Leads in the areas of Military Pay, Civilian Pay, Travel, Requisitioning, and Real Property. Correspondingly, Government Segment Program Managers have been established within the office of the Deputy Assistant Secretary of the Navy Financial Operations (DASN FO) to work with DON Commands in the execution of segment assertion strategies and key audit readiness work streams. Structured and coordinated collaboration between the Financial Management community and the Segment Functional Leads will enable the DON to fully leverage its business process and information technology (IT) system subject matter expertise to the benefit of audit readiness.

Further, the DON expanded the circle of accountability to include Field Commanders through conferences and town hall meetings, targeted communications, and audit readiness training. The DON also included



# Department of Navy



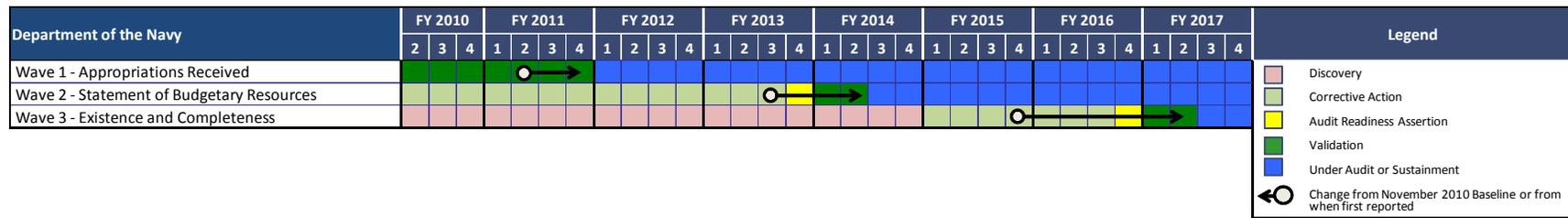
a financial improvement and audit readiness objective in Senior Executive Service (SES) and Flag Officer performance plans.

To achieve its aggressive audit readiness schedule, the DON recognizes that an “all hands on deck” effort is required and that success will not be realized through the execution of “business as usual.” The DON has made substantial progress in coordinating and aligning stakeholders and defining priorities, activities, and the schedule required to meet its goals. However, significant challenges remain in the areas of IT systems and the implementation of corrective actions required for assertion. The DON received additional resources

in the FY 2013 President’s Budget and is already programming this funding to address these challenges while further mitigating risk and advancing audit readiness.

Figure III-1 provides a summary view of the DON audit readiness plans for Wave 1, Appropriations Received; Wave 2, SBR; and Wave 3, Existence and Completeness of Mission Critical Assets. Figure III-1 also identifies changes to milestones from the baseline established in the November 2010 FIAR Plan Status Report.

**Figure III-1. DON SBR Audit Readiness Plans by Wave**





## STATEMENT OF BUDGETARY RESOURCES (WAVE 1 & WAVE 2)

The DON continues to make progress in executing its audit readiness plan for the SBR. As it works toward SBR audit readiness, the DON uncovered a number of challenges and is working collaboratively with DON service providers and the functional community to address them. The DON created an integrated Plan of Action and Milestones (PoAM) that incorporates activities from all stakeholders (e.g., Defense Logistics Agency (DLA), Defense Contract Management Agency (DCMA), and Defense Finance and Accounting Service (DFAS) required to achieve audit readiness. Execution of the PoAM will enable DON audit readiness by aligning stakeholders, assigning accountability, and programming key FIAR methodology activities and Critical Success Factors from other federal and DoD audits.

The U.S. Marine Corps (USMC), a Component of the DON, has demonstrated leadership in improving its budgetary and other financial information. The FY 2010 and FY 2011 audits of the USMC General Fund SBR concluded with a disclaimer of opinion. Close coordination is underway between the DoD OIG, the USMC and their contracted independent public accountant (IPA) to support the preparation and execution of a FY 2012 SBR audit. The DON is benefiting greatly from the USMC audit experience and has prioritized its audit readiness activities based on several key tenets as it prepares the overall DON for an SBR audit.

### Appropriations Received (Wave 1)

The DON participated in an IPA examination of its Appropriations Received line on the SBR in FY 2011. The IPA concluded that the DON fairly presented its Appropriations Received line while noting weaknesses in the DON's internal control environment. The DON is actively working to correct the internal control weaknesses noted in the audit. Efforts are underway to improve processes and control activities for supporting documentation retention, while developing stronger

automated system controls to govern funds distribution and the timely execution of key reconciliations.

### Statement of Budgetary Resources (Wave 2)

The four tenets of the DON SBR strategy are to:

- (1) Establish a strengthened array of standard internal controls over DON business processes.
- (2) Establish repeatable capabilities that support a controlled financial environment including Fund Balance with Treasury (FBWT) reconciliation and end-to-end traceability of transactions, demonstrated by supported balances and unadjusted-to-adjusted trial balance reconciliations.
- (3) Establish an audit support infrastructure, emphasizing top-level knowledge and control of the DON's financial data, as well as the ability to respond efficiently and effectively to an auditor's request for information.
- (4) Standardize business processes using best-of-breed procedures in legacy environments and identical procedures among Navy Enterprise Resource Planning system (ERP) users. Standardization will lead to reduced cost in financial management overhead, stronger internal controls, and improved audit readiness.

The DON incorporated these tenets within the integrated PoAM. The plan's components include:

- Establishing the transaction universe and reconciling unadjusted-to-adjusted trial balances.
- Evaluating business process audit readiness.
- Performing internal control and source document testing.
- Establishing an audit response infrastructure.
- Conducting examinations.



# Department of Navy



In one critical work stream, the DON is working to identify the transaction universe and reconcile unadjusted-to-adjusted trial balances. This effort will establish a financial statement audit trail, demonstrating that reported financial statement values are supported by detailed transactions, and also will validate the mapping of the general ledger accounts to the line items reported on the financial statements. One of the most significant challenges that the DON faced in this area was its ability to obtain a detailed transaction history from one of the legacy systems, Standardized Accounting and Reporting System (STARS). Working together, the DON and DFAS have developed and implemented a solution to address this challenge and produce the transaction detail. However, continued collaboration with DFAS and Naval Supply Systems Command Business Systems Center (NAVSUP BSC) is critical to success: (1) to validate transactions are recorded to the correct general ledger accounts (posting logic), and (2) general ledger transaction details reconcile to the trial balance in DON's financial reporting system, Defense Departmental Reporting System (DDRS).

In addition to the STARS system, the DON is working with the Navy ERP Program Management Office (PMO) and Navy Systems Management Activity (NSMA) to reconcile the transaction universe and validate the posting logic for the ERP and NSMA financial systems. Similar to STARS, Navy ERP and NSMA, provide transactional detail to the trial balance in DDRS. These key reconciliations must be completed to support the transaction universe at the statement (SBR) level.

Another critical component of the DON's integrated PoAM focuses on evaluating the audit readiness of key business processes. Business processes that materially impact the SBR include Military and Civilian Pay, Contracts, Reimbursable Work Orders, Requisitions (MILSTRIP Orders), Travel (Transportation of People), Fund Balance with Treasury (FBWT), and Financial Statement Compilation and Reporting. The planned outcomes include documented DON business processes; an assessment of management reliance on internal controls

associated with a business process, including IT controls assessment; an assessment of DON's ability to support financial transactions; and verification of key reconciliations for materially significant areas (i.e., FBWT, Military Pay, and Civilian Pay). A summary of planned assertion and validation dates for key SBR business processes is presented in Figure III-2. The DON also is developing a plan to validate the distribution of funds to the base-level to enhance previous test work performed in the Funds Receipt and Distribution business process.

Business processes and IT systems are being assessed to determine the effectiveness in meeting key control objectives, and controls are being enhanced to improve accuracy, timeliness, and reliability of financial data to reduce the cost of reworking improperly-executed transactions. Where process internal controls are lacking, statistical and non-statistical substantive procedures and other analyses are being employed to evaluate the accuracy of the financial transactions.

Currently, control weaknesses are prevalent in many of DON's business processes and IT systems. Assessments of control effectiveness and their impact on the financial statements are ongoing and will require corrective action, when material, prior to the DON SBR assertion. As a component of the control assessments, the DON is working with its service providers and leveraging existing documentation, through coordination with the functional community, in an ongoing, iterative process to inventory its financial systems.

As a result of the control assessments, the DON has identified significant weaknesses requiring corrective actions including FBWT reconciliation, lack of military pay transaction evidential matter, lack of reconciliation of unadjusted to adjusted trial balances, inconsistent performance of receipt and acceptance controls, trading partner reconciliation deficiencies, inconsistent methodology and recording of accruals, timeliness and completeness issues for Permanent Change of Station travel obligations, and inadequate monitoring of segregation of duties.



The fourth element within the integrated PoAM is preparing for the audit itself. The DON is leveraging NAVAUDSVC to conduct limited control testing at various field locations across the Enterprise. In this effort, the DON is sampling commitment, obligation and accounts payable transactions, and assessing its ability to provide supporting documentation for the transactions. This effort benefits the DON's audit readiness preparation by providing an opportunity to exercise the process and capabilities required to respond to audit requests at all levels of the organization – a key audit readiness step.

Additionally, a key lesson learned from the USMC audit is the need for a robust and timely audit infrastructure to respond to auditor requests. Even if DON business processes and systems are ready for audit, the audit will not be successful unless DON Commands, DFAS, and other key service providers are ready to respond promptly and sufficiently to audit demands. The DON is establishing data management and communication structures, as well as tools to support the audit. The USMC achieved this capability for its SBR audit, and the DON is leveraging the USMC experience to build the audit infrastructure in the DON's more extensive, complex environment.

In summary, the DON is proceeding in executing its SBR audit readiness plan. To emphasize the significance of financial improvement to the DON, the Under Secretary of the Navy and Vice Chief of Naval Operations required financial improvement goals in SES/Flag Officer FY 2012 performance objectives. Also, the DON and its primary service provider, DFAS, have forged a strong partnership and together are making progress in moving closer to an audit ready state for key business processes and reconciliations. The DON also has coordinated with its other shared service providers to establish similar working relationships. The USMC SBR audit continues to move forward, providing significant insight and lessons learned that have enabled the DON to enhance its overall SBR audit readiness plan.

## U.S. MARINE CORPS SBR AUDIT

The DoD OIG issued a disclaimer of opinion report on November 22, 2011, for the audit of the USMC FY 2011 General Fund (GF) SBR. The report highlighted that an audit opinion was not reached due to scope limitations that precluded the auditors from completing their work. Following the release of this disclaimer report, the DoD OIG extended the FY 2011 SBR audit period based on demonstrated progress and process improvements made by the USMC. The USMC continues to work closely with the DoD OIG and their contracted IPA to support the preparation and execution of a FY 2012 SBR audit. The USMC remains the only Military Component under independent audit and serves as a critical pilot program within the DON strategy for audit readiness and sustainment.

Process and system improvements within the USMC allowed the emphasis of the FY 2011 audit to shift beyond beginning balance evaluations and audit examinations. The audit shift signaled organizational progress and another step closer to an audit opinion. After the USMC aggressively addressed a number of auditor concerns, testing to confirm USMC corrections was conducted during the extended audit period. The extended audit focused on all accounting data that posted during FY 2011 (i.e., Current Year [CY] testing). On a comparative basis, evaluations of USMC CY accounting activity did not occur in the first-year audit (FY 2010). The expanded FY 2011 SBR audit testing methodology resulted in significantly more samples and test requirements. However, the improved coordination among the auditors and USMC personnel (i.e., those responsible for establishing the fiscal requirement) led to more timely and accurate supporting documentation needed for successful audit testing.

For FY 2011, the USMC delivered more than 150 million accounting records, responded to requests for more than 12,000 sample items, and provided more than 45,000 sample support files. The USMC and its service providers continue to strengthen key processes, particularly those in the following areas:



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**1. Organization and Audit Support.** The USMC recognized that the amount of data and documentation needed to support a substantive-based SBR audit necessitated centralized management and robust data and documentation transfer procedures. In leveraging existing technologies to create Web-based collaboration portals and seamless data transfer among all audit stakeholders, USMC fostered a secure and proven medium for the electronic delivery of millions of accounting records and thousands of supporting documents from disparate field sites across the globe. Furthermore, the development and circulation of formalized audit procedures and management policies (e.g., defined audit management structure, sample review procedures, document management plans) represents a continuing and unwavering resolve to reinforce optimal audit performance across USMC stakeholders. These procedures have yielded speed and efficiency, allowing for improved communication, collaboration, and sustainability.

**2. Trial Balances and Reconciliations.** The USMC demonstrated a sustainable reconciliation environment supporting the validity of its transaction details reported in its financial statements. As a result of lessons learned from the FY 2010 SBR audit, and in coordination with DFAS and the Defense Logistics Agency (DLA), the USMC implemented management controls and sustainable reporting mechanisms to accurately capture all transaction data by general ledger account prior to the start of the FY 2011 audit.

**3. Fund Balance with Treasury (FBWT).** At the onset of the FY 2011 audit, the USMC created a simplified summary report to verify FBWT balances on a monthly basis. The USMC developed a control to retain the transactional detail of the monthly reconciliations and has provided that detail to the auditors upon request. The auditors reconciled and tested FBWT during the FY 2011 SBR audit – something not accomplished in the FY 2010 SBR audit.

**4. Supportability via Electronic Documents.** The use of several DFAS storage repositories, such as the Multi-System Search Tool (MSST), Electronic Document Access (EDA), and the Electronic

Document Management (EDM) Electronic File Room (EFR), resulted in a savings of countless hours to locate and retrieve audit-trail artifacts. These repositories also have prompted a heightened awareness for identifying and correcting internal control weaknesses associated with scanning and retaining audit support. The USMC SBR auditors have shown great confidence in the quality of USMC electronic documents, such as the use of Web Visual Logistics (WEB VLIPS) to support Military Standard Requisitioning and Issuing Procedures (MILSTRIP) procurements. As a result, other electronic document mediums currently are being sought (e.g., large Wide Area Workflow (WAWF) data extracts) to maximize available efficiencies in retrieving supporting documents.

**5. Information Technology Testing.** The USMC business enterprise is an interconnected environment of 26 principal systems and applications, many of which are owned and maintained by external service providers. In accordance with their responsibility to assess compliance with laws and regulations, such as the Federal Financial Management Improvement Act (FFMIA) of 1996, the auditors focused on the following four material systems during the FY 2011 SBR audit:

- Standard Accounting, Budgeting and Reporting System (SABRS) owned by DFAS,
- Defense Departmental Reporting System (DDRS) owned by DLA,
- Marine Corps Total Force System (MCTFS) owned by USMC; and,
- Defense Cash Accountability System (DCAS) owned by DLA.

The results of these system assessments yielded findings and conclusions that will bolster internal control improvements and give increased confidence in the accuracy and reliability of system outputs across DoD.

**6. Appropriations Received.** As a condition of audit readiness and in preparation for the SBR audit, USMC's Appropriations Received



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segment has been asserted for external review. This area was within the scope of auditor evaluation for the USMC FY 2011 SBR audit.

**7. Military Pay.** For the FY 2010 SBR audit, the auditors were unable to assess the validity of USMC military pay balances primarily due to scope limitations and audit timelines. The USMC improved its military pay support and provided detailed reconciliations of payroll transactions that enabled the auditors to assess military pay balances and personnel records for a sample of Marines for the FY 2011 SBR audit.

**8. Civilian Pay.** Civilian pay was not assessed in the FY 2010 SBR audit, but was assessed in the FY 2011 audit. Sample testing started in September 2011, and the Marine Corps provided all relevant reconciliations and detailed transactions to the auditors.

The lessons learned and subsequent process enhancements demonstrate a continued and unwavering commitment to financial improvement and accountability. The USMC remains focused and resolute in its pursuit of a financial statement audit opinion and embraces its role as a catalyst in promoting audit readiness and sustainment across the DON and in support of DoD-wide goals.

### Missed Assertion Milestone and Remedial Actions

The DON did not complete the assertion milestone for Reimbursable Work Orders in Quarter 3 of FY 2011, as previously reported. Figure III-2 provides the reasons why this milestone was missed and the actions to ensure the revised date of Quarter 1 of FY 2013 will be met. This milestone change does not impact the DON’s plan to achieve SBR audit readiness in FY 2014.

**Figure III-2. Missed Assertion Milestone and Remedial Actions**

Reimbursable Work Orders	
Original Milestone Date	Quarter 3 of FY 2011
Reasons Milestone Was Missed	<ul style="list-style-type: none"> <li>• Receipt and acceptance is not timely.</li> <li>• Reimbursable agreements are not adequately monitored, reconciled, or documented.</li> <li>• Authority delegation is not sufficiently supported.</li> </ul>
Revised Milestone Date	Quarter 1 of FY 2013
Actions to Ensure Milestone Will Be Met	The revised milestone will be met as part of DON’s overall audit readiness strategy and approach to achieving an auditable SBR in FY 2014. Building on initial internal control testing results and required corrective actions, a Reimbursable Work Orders assertion strategy has been developed and defined within the Integrated PoAM.
Impact on Achieving SBR Auditability in 2014	None



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## SBR Assessable Units

Figure III-3 provides a summary view of the DON audit readiness plans for the SBR by assessable unit. It also identifies the changes to milestones from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported. The SBR assessable units are:

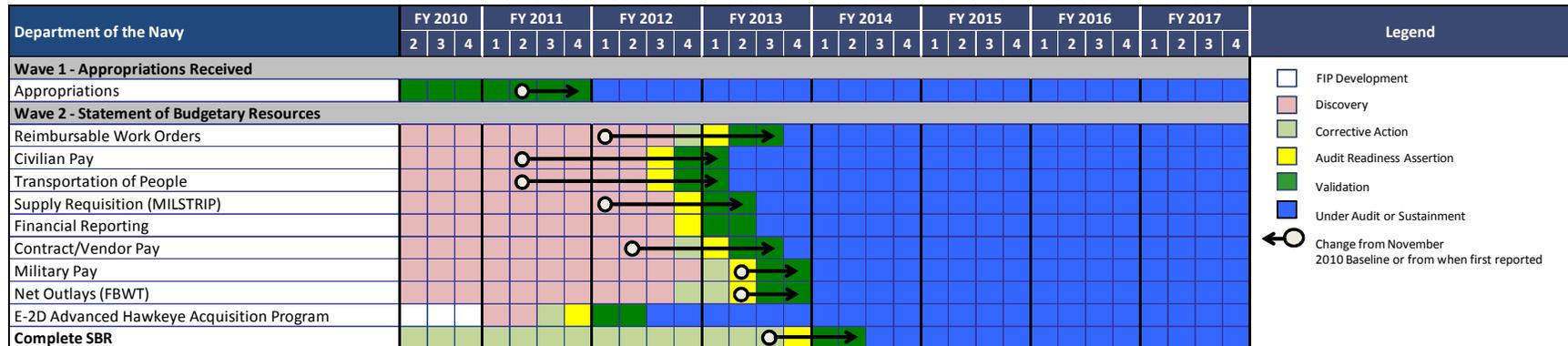
- Reimbursable Work Orders
- Civilian Pay
- Transportation of People
- Supply Requisition (MILSTRIP)
- Financial Reporting

- Contract/Vendor Pay
- Military Pay
- Net Outlays (Fund Balance with Treasury)
- E-2D Advanced Hawkeye Acquisition Program

## Assessable Unit Progress and Plan Charts

Following Figure III-3 are SBR Assessable Unit Progress and Plan Charts. There is one chart for each assessable unit being worked by the DON to achieve SBR audit readiness in FY 2014. These charts provide a strategy section identifying the DON strategy to achieve audit readiness, a milestone section with the dates for completing the FIAR phases, and the dates audit readiness outcomes will be completed, as well as the accountable entities.

Figure III-3. DON SBR Audit Readiness Plans by Wave





## Reimbursable Work Orders

### Strategy Summary

- Coordinate with DFAS to document and test key controls associated with the reimbursable work order billing processes.
- Develop a controls strategy to mitigate risks associated with inconsistent receipt and acceptance procedures. Coordinate with OUSD(C), USMC, and other government agencies to develop a post-payment validation process.
- Coordinate with DFAS to validate reimbursable work order posting logic to validate testing populations.
- Develop corrective actions to address risks associated with completeness of reimbursable agreements recorded to the GL (e.g., trading partner reconciliation) to identify any discrepancies between performer and grantor agreements).
- Establish a working group including FMO and DFAS to develop and implement a methodology to estimate and record accruals for grantor and performer transactions.
- Discovery was not completed in February 2012 due to transaction universe issues. Therefore, FIAR phase and assertion dates were changed as shown.

### Milestones (✓ = Completed)

FIAR Phases	As Planned	Completion
Discovery	02/2012	06/2012
Process Documentation	12/2011	✓
Test Plans	12/2011	✓
Conduct Control Testing	01/2012	✓
Conduct Balance Testing	01/2012	✓
Implement Corrective Actions	05/2012	07/2012
Validate Corrective Actions	06/2012	11/2012
<b>Assertion</b>	<b>06/2012</b>	<b>12/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	Commands	11/2012
Obligations are valid and recorded accurately.	Commands	11/2012
Accruals/payables are recorded timely	DFAS	11/2012
Accruals/payables are valid and recorded accurately.	DFAS	11/2012
IPAC disbursements/advances are recorded timely.	DFAS	11/2012
IPAC disbursements/advances are valid and recorded accurately.	DFAS	11/2012
Stale or invalid obligations and accruals are removed.	Commands	11/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives. (Legacy: STARS-FL; STARS-HCM, FMS-NSMA ,IPAC;   ERP: Navy ERP)	DON FMO	Legacy:09/2013 ERP: 11/2012



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## Civilian Pay

### Strategy Summary

- Prepare an approach for reconciling the Defense Civilian Payroll Systems (DCPS) payroll data to DON field accounting systems.
- Established Office of Civilian Human Resources (OCHR) as Functional Segment Lead.
- Leveraging relationships with DFAS accounting personnel to validate both civilian pay posting logic and testing populations.
- Work closely with DON Command financial management to develop and implement corrective action plans for timely Civilian Pay accruals, system access, and budget authority evidence.
- Incorporated key control activities from DCPS and Automated Disbursing System (ADS) SSAE 16 reviews into overall assertion strategy; awaiting completion of field work.
- Discovery was not completed in February 2012 due to transaction universe issues. Therefore, other interim milestones and FIAR phase dates were changed as shown.

### Milestones (✓ = Completed)

FIAR Phases	As Planned	Completion
Discovery	02/2012	06/2012
Process Documentation	12/2011	✓
Test Plans	12/2011	✓
Conduct Control Testing	01/2012	✓
Conduct Balance Testing	01/2012	06/2012
Implement Corrective Actions	05/2012	06/2012
Validate Corrective Actions	06/2012	06/2012
<b>Assertion</b>	<b>06/2012</b>	<b>06/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Personnel data are recorded timely.	OCHR, Commands	06/2012
Personnel data are valid and recorded accurately.	OCHR, Commands	06/2012
Payroll is calculated and processed accurately.	Commands, DFAS	06/2012
Payroll obligations, expenses, accruals, and disbursements are recorded timely.	Commands, DFAS	06/2012
Payroll obligations, expenses, accruals, and disbursements amounts are valid and recorded correctly.	Commands, DFAS	06/2012
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	DFAS	06/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives. (Legacy: DCPS; DCPDS; DONCADS; SUPDESK; SLDCADA; FMS-NSMA; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy:09/2013 ERP: 11/2012



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## Transportation of People

### Strategy Summary

- In collaboration with OUSD(Personnel and Readiness), the DON is defining a method for monitoring separation of duties within the Defense Travel System (DTS).
- Established NAVSUP as Segment Functional Lead.
- Continue coordination with commands to ensure implementation of corrective action plans to address completeness of vouchers and monitoring of separation of duties.
- Improve the completeness and accuracy of approval authority designations through a review of all existing appointment letters for accuracy and appointment responsibility.
- Execute additional internal control and key supporting documentation testing.
- Discovery was not completed in February 2012 due to transaction universe issues. Therefore, other interim milestones and FIAR phase dates were changed as shown.

### Milestones (✓ = Completed)

FIAR Phases	As Planned	Completion
Discovery	02/2012	06/2012
Process Documentation	12/2011	✓
Test Plans	12/2011	✓
Conduct Control Testing	02/2012	✓
Conduct Balance Testing	02/2012	06/2012
Implement Corrective Actions	05/2012	06/2012
Validate Corrective Actions	06/2012	06/2012
<b>Assertion</b>	<b>06/2012</b>	<b>06/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Travel information is recorded timely.	Commands	06/2012
Travel information is valid and recorded accurately.	Commands	06/2012
Travel costs are calculated correctly and are processed accurately.	Commands	06/2012
Travel obligations, expenses, accruals, and disbursements are recorded timely.	Commands	06/2012
Travel obligations, expenses, accruals, and disbursements are valid and recorded correctly.	Commands	06/2012
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	Commands	06/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives. (Legacy: DTS; NROWS; OASIS/EASIS; POEMS; FMS-NSMA; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP: 11/2012



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## Supply Requisition (MILSTRIP)

### Strategy Summary

- Separate MILSTRIP into three primary commodities to create controls that effectively manage each unique processes: Material, Food, and Fuel.
- Established NAVSUP as Segment Functional Lead.
- Leverage DFAS capabilities by formalizing the use of management controls to monitor the processing of incoming supplier bills.
- Create a detailed metric to confirm obligations established for requisitions reconciliation to bills received.
- Working to address challenges associated with the identification of the transaction universe through close coordination with NAVSUP BSC to isolate the specific data elements for MILSTRIP transactions.
- Discovery was not completed in March 2012 due to transaction universe issues. Therefore, other interim milestones and FIAR phase dates were changed as shown.

### Milestones (✓ = Completed)

FIAR Phases	As Planned	Completion
Discovery	03/2012	05/2012
Process Documentation	02/2012	✓
Test Plans	02/2012	✓
Conduct Control Testing	03/2012	✓
Conduct Balance Testing	03/2012	05/2012
Implement Corrective Actions	07/2012	07/2012
Validate Corrective Actions	08/2012	08/2012
<b>Assertion</b>	<b>09/2012</b>	<b>09/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	Commands	09/2012
Obligations are valid and recorded accurately.	Commands	09/2012
Receipt/payables are recorded timely.	Commands	09/2012
Receipt/payables are valid and recorded accurately.	Commands	09/2012
Disbursements are recorded timely.	Commands	09/2012
Disbursements are valid and recorded accurately.	Commands	09/2012
Stale or invalid obligations and accruals are removed.	Commands	09/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives. (Legacy: VISTA; MicroSNAP; NALCOMIS; RSUPPLY; SALTS; STORES; FMS-NSMA; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP: 11/2012



## Financial Reporting

### Strategy Summary

- Applying lessons learned from the USMC SBR audits (i.e., JV approval/support/coordination, supervisory reviews, etc).
- Identifying and documenting the relevant key controls of the Defense Departmental Reporting System (DDRS) and business processes within the Navy and DFAS.
- Dates are based on two rounds of testing, knowing some of the tests will be favorable due to results from USMC SBR audit, and correctives actions already implemented.
- Defining appropriate scope of financial reporting.
- Discovery was not completed in April 2012, as planned, but achieving the assertion date is on schedule.

### Milestones (✓ = Completed)

FIAR Phases	As Planned	Completion
Discovery	04/2012	06/2012
Process Documentation	01/2012	✓
Test Plans	01/2012	✓
Conduct Control Testing	03/2012	06/2012
Conduct Balance Testing	03/2012	06/2012
Implement Corrective Actions	08/2012	07/2012
Validate Corrective Actions	09/2012	08/2012
<b>Assertion</b>	<b>09/2012</b>	<b>09/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Trial balance data is produced timely.	DFAS, Command	05/2012
Trial balance data is valid and accurate.	DFAS, Command	06/2012
Trial balance data is completely/accurately loaded into DDRS-B.	DFAS	05/2012
Trial balance data is completely/accurately loaded from DDRS-B into DDRS-AFS.	DFAS	08/2012
Adjustments recorded in DDRS-B and DDRS-AFS are recorded timely.	DFAS	07/2012
Adjustments recorded in DDRS-B and DDRS-AFS are valid and accurate.	DFAS	08/2012
SBR related footnotes and accompanying information is completed timely.	DFAS, FMO	07/2012
SBR related footnotes and accompanying information is valid and accurate.	DFAS, FMO	08/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives.	DLA	08/2012



## Contract/Vendor Pay

### Strategy Summary

- Capture the transaction universe and materiality of Other Contractual Services (OCS) within accounting systems to include Contract Vendor Pay, Purchase Card, Grants, and Miscellaneous Payments; extract data and validate the transaction universe.
- Collaborate with service providers (DFAS-Columbus and Cleveland, DCMA, DCAA, Navy CCPMD) to integrate business processes and risks into controls testing.
- Leverage DFAS-CO MOCAS SSAE 16 process flows, testing, and corrective actions for control reliance. Identify controls not covered by SSAE 16 and implement other assessment procedures.
- Incorporate internal controls and audit compliance testing from CCPMD on Command's Government Purchase Card (GPC) transactions to integrate into the OCS assertion.
- Develop corrective actions to address risks related to Navy ERP to MOCAS contract reconciliation and the volume of manual contract closeouts required, along with a lack of controls to fully estimate accruals and/or payables.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	05/2012
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	05/2012
Conduct Balance Testing	05/2012
Implement Corrective Actions	08/2012
Validate Corrective Actions	12/2012
<b>Assertion</b>	<b>12/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	Commands	12/2012
Obligations are valid and recorded accurately.	Commands	12/2012
Accruals and/or payables are recorded timely.	Commands/DFAS	12/2012
Accruals and/or payables are valid and recorded accurately.	Commands/DFAS	12/2012
Disbursements are recorded timely.	DFAS	12/2012
Disbursements are valid and recorded accurately.	DFAS	12/2012
Stale or invalid obligations and accruals are removed.	Commands	12/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives. (Legacy: MOCAS (APVM & PPVM); SPS; STARS One Pay; WAWF; FASTDATA; FMS-NSMA; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP: 11/2012



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## Military Pay

### Strategy Summary

- Established Navy Personnel Command (BUPERS) as Segment Functional Lead.
- Evaluate the audit readiness of key business processes.
- Complete process documentation with DFAS.
- Assess ability to support key financial transactions with source documentation.
- Assess key internal controls, including IT controls, with DFAS and OUSD(C)/FIAR.
- Verify key reconciliations for materially significant areas.
- Incorporate lessons learned and key findings from GAO audit of Army Military Pay, specifically Personnel Pay Account Reconciliation, Source Documentation (Entitlements), and LES Data into the DON approach to MILPAY assertion.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	07/2012
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	07/2012
Conduct Balance Testing	07/2012
Implement Corrective Actions	12/2012
Validate Corrective Actions	02/2013
<b>Assertion</b>	<b>03/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Personnel data are recorded timely.	BUPERS, CNIC	02/2013
Personnel data are valid and recorded accurately.	BUPERS, CNIC	02/2013
Payroll is calculated and processed accurately.	DFAS	02/2013
Payroll obligations, expenses, accruals, and disbursements are recorded timely.	DFAS	02/2013
Payroll obligations, expenses, accruals, and disbursements amounts are valid and recorded correctly.	BUPERS, DFAS	02/2013
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	DFAS	02/2013
Material systems achieve relevant FISCAM IT general and application-level control objectives. (Legacy: NSIPS; BOATS; NES; OPINS; RIMS-FM; RHS; FMS-NSMA; STARS-FL; STARS-HCM)	DON FMO	09/2013



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## Net Outlays (FBWT)

### Strategy Summary

- Document and evaluate end-to-end FBWT processes. Coordinate with commands and DFAS to identify and test key controls related to Funds Distribution and Net Outlays, including DCAS reporting to Treasury and validation of funding posted in the general ledger.
- Design and implement FBWT reconciliations related to funding and net outlays (i.e., reconcile legislated funding amounts to PBIS, reconcile GWA to general ledger account balances).
- Design and implement metrics to track undistributed balances, perform root cause analysis, implement remediation actions, and reduce undistributed/unreconciled balances to immaterial amounts.
- Identify and implement critical changes in systems (i.e., STARS-FL and BAM) to resolve underlying disconnects resulting in either inaccurate data or inability to reconcile FBWT.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	06/2012
Process Documentation	✓
Test Plans	06/2012
Conduct Control Testing	06/2012
Conduct Balance Testing	06/2012
Implement Corrective Actions	12/2012
Validate Corrective Actions	03/2013
<b>Assertion</b>	<b>03/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Disbursements and collections are reported timely.	DFAS	03/2013
Disbursements and collections are valid and reported accurately.	DFAS	03/2013
Treasury accounts are reconciled timely.	DFAS, FMB, Commands	03/2013
Reconciliations, including general ledger and disbursing system data, are accurate.	DFAS, FMB, Commands	03/2013
Reconciling items are identified timely.	DFAS, FMB, Commands	03/2013
Reconciling items are valid and resolved accurately.	DFAS, FMB, Commands	03/2013
Material systems achieve relevant FISCAM IT general and application-level control objectives. (Legacy: DCM; DDRS-B; DDRS-AFS; GWA; PBIS/PBAS; FMS-NSMA STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP: 11/2012



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## E-2D Advanced Hawkeye Acquisition Program

### Overview

The objective of the E-2D Advanced Hawkeye Acquisition Program assertion initiative demonstrates financial stewardship of funds allotted for a major acquisition program and assesses the audit readiness of a DON Major Command, NAVAIR, and DON service providers. The assertion supports the September 30, 2010, Appropriations Status Report (AR (M) 1002) balances for FY 2008 – FY 2010 RDT&E and APN Appropriations, representing approximately \$2.7 billion of funding.

### Financial Improvement Impact

The DON identified key lessons learned to guide future audit readiness initiatives:

- Roles/responsibilities must be clearly defined and understood.
- Establish a detailed PoAM to guide and monitor execution.
- Need “Tone from the Top” at all commands to set the appropriate sense of urgency and attention to detail.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Conduct Balance Testing	✓
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes(✓ = Completed)

Outcomes	Completion
Obligations are recorded in the correct period	✓
Obligations are recorded accurately and are valid	✓
Accruals and/or payables are recorded in the correct period and within 10 days of receipt	N/A
Accruals and/or payables are valid and recorded accurately	N/A
Outlays, collections, and receipts are recorded in the correct period	✓
Disbursements are valid and recorded accurately	✓
Obligations are reviewed, and adjusted as necessary, at least three times per year	✓
All material systems achieve the relevant FISCAM IT general and application-level control objectives	11/2012



## EXISTENCE AND COMPLETENESS OF ASSETS (WAVE 3)

In FY 2010, the DON asserted existence and completeness audit readiness for five mission critical asset categories targeted as “Quick Wins”: Ships and Submarines, Aircraft, Satellites, Trident D5 Missiles, and Ordnance. The first four were targeted because they typically have a relatively small inventory count with large dollar values and are centrally managed and essential to the DON mission. The DON selected Ordnance as a potential “Quick Win” because of its proven history of high inventory accuracy.

In FY 2011, the DON performed existence and completeness testing of DON Uninstalled Aircraft Engines and Navy Boats. The Marine Corps also completed existence and completeness testing on Light Armored Vehicles (LAVs), M777 Howitzers, and Garrison Mobile Equipment (GME). Uninstalled Aircraft Engines and GME were forwarded to the OUSD(C) for a pre-assertion review. Navy Boats, LAVs, and Howitzers are expected to follow.

When combined with the FY 2010 efforts, these assets make up approximately 83 percent of the DON’s unaudited net book value (NBV) of General Property, Plant, and Equipment (GPP&E); and 61 percent of the DON’s unaudited NBV of Operating Materials and Supplies (OM&S).

In FY 2012, the DoD OIG provided clean audit opinions for Ships and Submarines, Satellites, and Trident D5 Missiles. The DoD OIG is currently examining DON Aircraft with completion of the audit expected May 31, 2012.

Based on OUSD(C) recommendation, the DON is conducting further process mapping and control testing of the Ordnance and Uninstalled Aircraft Engine assessable units with DON reassertion/assertion projected in Quarter 4 of FY 2012. The DON also expects to assert Navy Boats before the end of Quarter 3 of FY 2012.

## Approach to Existence and Completeness

In early FY 2012, the DON shifted focus from a strategy of substantive testing to one that emphasizes compliance with the DoD FIAR Guidance, actively programming key activities, including internal control testing and resulting work products in refined PoAMs for mission critical assets. Refined PoAMs for Real Property and Government Furnished Equipment (GFE) were completed in Quarter 2 of FY 2012. Additionally, detailed PoAMs are in development for Military Equipment not asserted, General Equipment (incorporating GFE), OM&S, and Inventory.

Real Property will be the DON’s primary area of focus for the remainder of FY 2012. Working closely with the Real Property Segment Functional Lead, the Naval Facilities Engineering Command (NAVFAC), the DON developed a detailed PoAM incorporating the key tenets and activities from its SBR PoAM. Initial testing of Real Property controls is scheduled in late FY 2012.

As in FY 2010 and FY 2011, current DON FY 2012 existence and completeness efforts are dependent on the cooperation and collaboration of responsible operational personnel, leadership support and buy-in, and the development of compliant procedures to validate the existence and completeness of mission critical assets deployed around the world. The DON approach to existence and completeness verification focuses on three key areas, as described below:

### APSR Beginning Balances

Beginning balances in the respective Accountable Property Systems of Record (APSR) are evaluated through a review of previous audit reports, budget data, receipt documentation, and spot checks based on publicly available information. Completeness checks are performed by reconciling property records with maintenance records, readiness reports, scheduling records, and movement and transfer records.



## APSR Additions and Deletions

Additions and deletions are evaluated based on process walkthrough discussions with functional personnel. When the processes, risks, and controls are documented, a sample is selected, and the asset's existence is verified by visual inspection and source documentation provided by functional personnel. Further, key controls within "Acquisition" and "Disposal" components of the property lifecycle are tested.

## APSR Inventory Controls and Procedures

Inventory results are provided by operational personnel and are assessed. In lieu of physical inventories, alternative procedures are employed to assess inventory accuracy. For example, a "virtual inventory" can be performed using maintenance records, readiness reports, scheduling records, dated photographs, and transfer records.

A "Controls Assessment Matrix" is completed for each existence and completeness asset class. This document aligns risks and key control objectives for each management assertion to specific key control activities, policy references, and supporting documents. Additionally, this matrix provides a standard testing methodology across asset classes and accountability systems, and standardizes the evaluation and reporting of results.

Due to the sensitive nature of certain mission critical assets, the support systems, documentation, and location of deployed assets are not always available to the validation teams. To address this issue, the DON relied upon alternative methodologies to prove asset existence. These alternative methodologies include on-site testing of data elements and condition/status codes to prove the accuracy of the data. In some cases, classified data files or source documents were provided to cleared personnel for review, as some assets were not available for visual inspection (e.g., Ships, Satellites). Through unprecedented cooperation, functional personnel were often made available to discuss procedures, asset management policies, supporting systems, and data. This buy-in and cooperation was essential to completing the existence and completeness audit assertions.

## Property Governance

The DON has taken a three-tiered approach to enhance its property governance. First, the DON is establishing a Property Governance Council (PGC) to be chaired by the Assistant Secretary of the Navy Energy Installations and Environment (ASN EI&E) and co-chaired by the ASN(FM&C). The Chief of Naval Operations (CNO), Commandant of the Marine Corps (CMC) and Assistant Secretary of the Navy Research Development and Acquisition (ASN RD&A) will also be key members of the PGC. This PGC will establish and oversee the execution of property guidance. Second, each Echelon II/Budget Submitting Office (BSO) is establishing a Command Property Official (CPO) to oversee the execution of property management within each Command. The CPO will contribute leadership for property accountability and auditability within each Command. Finally, each Command is designating command/activity level Accountable Property Officials to carry out day-to-day property management functions.

## EXISTENCE AND COMPLETENESS ASSESSABLE UNITS

### Missed Assertion Milestone and Remedial Actions

The DON did not complete the assertion milestone for OM&S - Ordnance in Quarter 4 of FY 2010, as reported in the November 2010 Report. Figure III-4 provides the reasons why this milestone was missed and the actions to ensure the revised date of Quarter 4 of FY 2012 will be met. This change does not impact the DON's plan to achieve mission critical asset existence and completeness audit readiness by FY 2016.



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Figure III-4. Missed Assertion Milestone and Remedial Actions

OM&S – Ordnance	
Original Milestone Date	Quarter 4 of FY 2010
Reason Milestone Was Changed or Missed	<ul style="list-style-type: none"><li>• Assertion package developed relied primarily on substantive procedures.</li><li>• Lack of internal control testing for additions, deletions, and issuance.</li></ul>
Revised Milestone Date	Quarter 4 of FY 2012
Actions to Ensure Milestone Will be Met	The revised milestones will be met as part of the DON’s overall audit readiness strategy and approach to existence and completeness of mission critical assets. The approach includes the execution of a PoAM aligned with DoD FIAR Guidance and including key corrective actions and internal control testing.
Impact on Achieving Mission Critical Asset Existence Completeness Auditability in 2016	None



## EXISTENCE AND COMPLETENESS OF ASSETS

Below are the DON existence and completeness assessable units. Figure III-5 provides the DON audit readiness plans for the existence and completeness assessable units. It also identifies the changes to milestones from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported.

- Military Equipment – Ships and Submarines, Trident Missiles, and Satellites
- Military Equipment – Aircraft
- Military Equipment – Navy Boats
- Military Equipment – Remainder
- Military Equipment – USMC
- General Equipment
- General Equipment – USMC
- Real Property
- Real Property – USMC
- Operating Materials and Supplies – Ordnance
- Operating Materials and Supplies – Uninstalled Aircraft Engines

- Operating Materials and Supplies – Remainder
- Operating Materials and Supplies – USMC
- Inventory
- Inventory – USMC
- Government Furnished Equipment

### Assessable Unit Progress and Plan Charts

Following Figure III-5 are Assessable Unit Progress and Plan Charts. There is one chart for each assessable unit being worked by the DON to achieve the existence and completeness FIAR priority. These charts provide a strategy section identifying the DON strategy to achieve audit readiness, a milestone section with the dates for completing the FIAR phases, and the dates audit readiness outcomes will be completed, as well as the accountable entities.





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## Military Equipment – Ships and Submarines, Trident Missiles, and Satellites

### Strategy Summary

- Ships and Submarines, Trident D5 Missiles, and Satellites were asserted for Existence, Completeness, and Rights as of September 2010, and achieved an unqualified opinion January 2012.
- Perform additions and deletions of Ships and Submarines in Defense Property Accountability System (DPAS), the APSR for Ships and Submarines, for sustainability.
- Transition performance of DPAS reconciliations to NAVSEA for repeatability and sustainment.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	N/A
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Military equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	✓
Military equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	✓
Military equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	✓
Military equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	✓
Changes to military equipment (condition, location) are recorded in the APSR timely.	Commands	✓
Changes to military equipment (condition, location) are recorded accurately in the ASPR.	Commands	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS; NVR; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP:11/2012



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## Military Equipment – Aircraft

### Strategy Summary

- Asserted Existence, Completeness, and Rights as of September 2010, and currently under examination by the DoD OIG.
- Perform additions and deletions test work in DPAS (the APSR) for Aircraft to bolster inventory procedures executed as the basis for sustainment.
- Transition performance of DPAS reconciliations to NAVAIR for repeatability and sustainment.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	N/A
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Military equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	✓
Military equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	✓
Military equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	✓
Military equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	✓
Changes to military equipment (condition, location) are recorded in the APSR timely.	Commands	✓
Changes to military equipment (condition, location) are recorded accurately in the ASPR.	Commands	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS; AIRRS; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP:11/2012



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## Military Equipment – Navy Boats

### Strategy Summary

- Navy Boats, different than Ships, may be assigned to and carried on a ship or assigned to an expeditionary command, short station, or fleet operating unit.
- Assertion efforts are relying on a virtual inventory of the Boats population.
- Performed independent testing to verify existence and completeness with positive results.
- Navy Boats assertion was changed from 09/2011 to 06/2012 due to implementation of the Boats Inventory Management manual to support controls identification.
- Control testing is not required due to small size of the population and the execution of a full substantive reconciliation.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	06/2012
Process Documentation	06/2012
Test Plans	✓
Control Testing	N/A
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	06/2012

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Military equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	✓
Military equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	✓
Military equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	✓
Military equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	✓
Changes to military equipment (condition, location) are recorded in the APSR timely.	Commands	✓
Changes to military equipment (condition, location) are recorded accurately in the ASPR.	Commands	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS; NVR; CBSS; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP:11/2012



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## Military Equipment – Remainder

### Strategy Summary

- Developing Military Equipment PoAM, inclusive of updated DoD FIAR Guidance requirements, to assert the remaining Military Equipment assets.
- Detailed plan includes continued focus on key corrective actions identified early in the Discovery Phase, as well as existence and completeness and internal control testing – a first in the Military Equipment assessable unit.
- Alternative inventory methodologies will be used where applicable to reduce the amount of field testing.

### Milestones

FIAR Phases	Completion
Discovery	09/2013
Process Documentation	06/2013
Test Plans	08/2013
Conduct Control Testing	09/2013
Implement Corrective Actions	04/2014
Validate Corrective Actions	06/2014
<b>Assertion</b>	<b>09/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Military equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	06/2014
Military equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	06/2014
Military equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	06/2014
Military equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	06/2014
Changes to military equipment (condition, location) are recorded in the APSR timely.	Commands	06/2014
Changes to military equipment (condition, location) are recorded accurately in the ASPR.	Commands	06/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS; EXMIS; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP: 11/2012



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## General Equipment

### Strategy Summary

- General Equipment (GE) existence and completeness efforts for Navy were delayed in FY 2011 and FY 2012 due to increased emphasis on the SBR. However, the USMC conducted field level existence and completeness testing for GE in FY 2011.
- The USMC evaluated supporting documentation and checked internal control procedures.
- Developed USMC Garrison Mobile Equipment assertion package and provided to OUSD(C)/FIAR for precursory review.
- Developing GE PoAM, inclusive of updated DoD FIAR Guidance requirements, to assert residual Navy GE assets. This plan includes continued focus on key corrective actions identified early in the Discovery Phase, as well as internal control and existence and completeness testing.

### Milestones

FIAR Phases	Completion
Discovery	09/2013
Process Documentation	07/2013
Test Plans	08/2013
Conduct Control Testing	09/2013
Implement Corrective Actions	04/2014
Validate Corrective Actions	06/2014
<b>Assertion</b>	<b>09/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
General equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	06/2015
General equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	06/2015
General equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	06/2015
General equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	06/2015
Changes to general equipment (condition, location) are recorded in the APSR timely.	Commands	06/2015
Changes to general equipment (condition, location) are recorded accurately in the ASPR.	Commands	06/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS; FMS-NSMA; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 09/2013 ERP:11/2012



## Real Property

### Strategy Summary

- Developed a PoAM to further detail key steps and interim milestones to assert Real Property (RP), including continued focus on key corrective actions identified and internal control testing.
- Conduct physical inventories of approximately 20 percent of RP each year.
- Use the internet Navy Facility Assets Data Store (iNFADS) to manage RP, including property valuation. There are no plans to migrate RP data to Navy ERP at this time.
- Continue to implement corrective actions to include automating the DD Form 1354 process for both MILCON and Non-MILCON acquisitions, minor construction accountability, and data reconciliations with Defense Agency tenants.

### Milestones

FIAR Phases	Completion
Discovery	05/2013
Process Documentation	10/2012
Test Plans	12/2012
Conduct Control Testing	05/2013
Implement Corrective Actions	08/2013
Validate Corrective Actions	12/2013
<b>Assertion</b>	<b>03/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Construction in progress (CIP) is recorded in the general ledger timely.	NAVFAC/USMC	12/2013
CIP is recorded accurately in the general ledger.	NAVFAC/USMC	12/2013
Completed CIP, other acquisitions, and transfers-in are recorded in the APSR and general ledger timely.	NAVFAC/USMC	12/2013
Completed CIP, other acquisitions, and transfers-in are recorded accurately in the APSR and general ledger.	NAVFAC/USMC	12/2013
Real property disposals and transfers-out are recorded in the APSR and general ledger timely.	NAVFAC/USMC	12/2013
Real property disposals and transfers-out are recorded accurately in the APSR and general ledger.	NAVFAC/USMC	12/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: FIS; iNFADS; FMS-NSMA; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 9/2013 ERP: 11/2012



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## Operating Materials and Supplies – Ordnance

### Strategy Summary

- Currently use a variety of systems to track and value OM&S, including the Ordnance Information System (OIS) for ordnance.
- Planned activity includes identifying and testing controls within the ordnance acquisition, deletion, and issuance lifecycle sub-processes to finalize OUSD(C)/FIAR validation.
- DON initially asserted Ordnance in September 2010.
- Milestones presented consist of activities required for re-assertion per feedback received from OUSD(C)/FIAR, including internal control testing for additions, deletions, and issuance.
- Conduct repeatable sustainability control testing to maintain audit ready assertions.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Implement Corrective Actions	06/2012
Validate Corrective Actions	07/2012
<b>Assertion</b>	<b>09/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	07/2012
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	07/2012
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	07/2012
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	07/2012
Changes to OM&S (condition, location) are recorded in the APSR timely.	Commands	07/2012
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	Commands	07/2012
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: OIS; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 9/2013 ERP: 11/2012



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## Operating Materials and Supplies – Uninstalled Aircraft Engines

### Strategy Summary

- Aircraft Engines, both installed (part of the aircraft) and uninstalled, which are classified and reported as OM&S, were tested due to the tremendous turnover of aircraft engines between the installed and uninstalled categories caused by maintenance requirements.
- Developed Uninstalled Aircraft Engines assertion package, based on substantive procedures and provided to OUSD(C)/FIAR during Quarter 1 of FY 2012 for precursory review.
- Formal assertion of Uninstalled Aircraft Engines was delayed from 09/2011 based on a requirement to perform control testing within the acquisition, deletion, and issuance sub-processes within the lifecycle.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Implement Corrective Actions	06/2012
Validate Corrective Actions	07/2012
<b>Assertion</b>	<b>09/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	07/2012
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	07/2012
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	07/2012
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	07/2012
Changes to OM&S (condition, location) are recorded in the APSR timely.	Commands	07/2012
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	Commands	07/2012
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DECKPLATE; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 9/2013 ERP: 11/2012



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## Operating Materials and Supplies – Remainder

### Strategy Summary

- During FY 2012, the DON reviewed Command OM&S sponsor-owned equipment and submitted an assertion package for the Existence, Completeness, and Rights of Ordnance assets (as of September 2010).
- Developing OM&S PoAM, inclusive of updated DoD FIAR Guidance requirements, to assert residual OM&S assets.
- Detailed plan includes continued focus on key corrective actions identified early in the Discovery Phase, as well as existence and completeness and internal controls testing – a first in the OM&S assessable unit.

### Milestones

FIAR Phases	Completion
Discovery	06/2014
Process Documentation	04/2014
Test Plans	05/2014
Conduct Control Testing	06/2014
Implement Corrective Actions	10/2014
Validate Corrective Actions	12/2014
<b>Assertion</b>	<b>03/2015</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	12/2014
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	12/2014
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	12/2014
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	12/2014
Changes to OM&S (condition, location) are recorded in the APSR timely.	Commands	12/2014
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	Commands	12/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: ILSMIS; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy: 9/2013 ERP: 11/2012



## Inventory

### Strategy Summary

- The DON is finalizing the rollout of Navy ERP version 1.1, which will be used to manage all DON inventory assets.
- The DON expects preliminary testing of inventory assets in Navy ERP to begin late in FY 2012.
- Developing Inventory PoAM, inclusive of updated DoD FIAR Guidance requirements, to assert DON Inventory assets.
- Detailed plan includes continued focus on key corrective actions identified early in the Discovery Phase, as well as existence and completeness and internal control testing – a first in the Inventory assessable unit.

### Milestones

FIAR Phases	Completion
Discovery	06/2013
Process Documentation	04/2013
Test Plans	05/2013
Conduct Control Testing	06/2013
Implement Corrective Actions	07/2013
Validate Corrective Actions	09/2013
<b>Assertion</b>	<b>12/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Inventory acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	09/2013
Inventory acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	09/2013
Inventory disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	09/2013
Inventory disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	09/2013
Changes to inventory (condition, location) are recorded in the APSR timely.	Commands	09/2013
Changes to inventory (condition, location) are recorded accurately in the ASPR.	Commands	09/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: N/A (only NAVSUP, a Navy ERP NWCF Command, procures Inventory)   ERP: Navy ERP)	Commands	Legacy: N/A ERP: 11/2012



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## Government Furnished Equipment

### Strategy Summary

- Developed Government Furnished Equipment (GFE) PoAM, inclusive of updated DoD FIAR Guidance and OUSD(AT&L) GFE requirements.
- Conducted kick-off meeting with Acquisition and Property Management communities to initiate GFE assertion collaboration.
- Identifying DON contracts that contain GFE.
- Developing template for Contracting Officers to request GFE list from DON contractors and vendors.
- Will have contractors update the IUID Registry, have Property Administrators update DON APSR, and have Commands implement and test controls.

### Milestones

FIAR Phases	Completion
Discovery	09/2014
Process Documentation	09/2013
Test Plans	06/2014
Conduct Control Testing	09/2014
Implement Corrective Actions	03/2016
Validate Corrective Actions	06/2016
<b>Assertion</b>	<b>09/2016</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
GFE acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	Commands	06/2016
GFE acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	06/2016
GFE disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely	Commands	06/2016
GFE disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	Commands	06/2016
Changes to general equipment (condition, location) are recorded in the APSR timely.	Commands	06/2016
Changes to general equipment (condition, location) are recorded accurately in the ASPR.	Commands	06/2016
Material systems achieve relevant FISCAM IT general and application-level general control objectives. (Legacy: DPAS; FMS-NSMA; STARS-FL; STARS-HCM   ERP: Navy ERP)	DON FMO	Legacy:09/2013 ERP: 11/2012



## ENTERPRISE RESOURCE PLANNING SYSTEMS

### Program Overview

The Navy ERP Program is an integrated business management system that modernizes, streamlines, and standardizes how the Navy manages people, money, programs, equipment, and supplies. The Navy ERP combines business process reengineering (BPR) and industry best practices, supported by commercial off-the-shelf and software, (COTS) and integrates many facets of Navy business operations using a single database to manage shared common data.

Today, approximately 66,000 individuals utilize Navy ERP to manage approximately 47 percent of the Navy's Total Obligation Authority (TOA). By its final deployment in October 2012, the Navy ERP will serve over 72,000 users and manage over 50 percent (approximately \$63 billion) of the Navy's TOA.

The Navy ERP contributes to fleet readiness by standardizing Navy business operations, thereby normalizing and reducing overhead costs and optimizing business operations. The Navy ERP also streamlines and enhances the ability of the Navy's supply chain management to effectively and efficiently provide Sailors and ships with the items they need every day. The deployment of the Navy ERP Supply Solution automates previously manual processes with an integrated single data environment providing real-time visibility to manage fleet assets, resources, and inventory.

The Navy ERP also improves the Navy's visibility of total costs of operations for those organizations using the system, leading to improved decision making. Additionally, it enhances the Navy's ability to produce auditable financial statements in compliance with the National Defense Authorization Act for FY 2010, Chief Financial Officers Act of 1990, and DoD Information Assurance Certification and Accreditation Process. It also standardizes business processes to meet DoD Financial Management Regulation, Federal Financial

Management Improvement Act of 1996, and Standard Financial Information Structure.

Specifically, audit readiness will be achieved by improving processes, controls, and documentation while pursuing four objectives that support the FIAR Methodology (Appendix 2) phases of Discovery, Corrective Action, Evaluation, Assertion, Validation, and Audit:

1. Producing audit ready documentation from Navy ERP data and information.
2. Making information easier to obtain during an audit by consolidating and formatting Navy ERP to produce suitable documentation.
3. Establishing and maintaining a systems environment to facilitate the provision of testable transaction-level data and information.
4. Providing a portfolio of tools and enhancements that improve the conduct of future audits by producing audit information and reports that document and improve business processes.

The Navy ERP Program Management Office (PMO) is dedicating additional resources to work audit readiness and annual audit response requirements. As an example, the PMO is assessing the current SAP environment, support model, internal controls, and business intelligence toolset to ensure adequacy for financial audits.

In addition, the PMO is performing a limited Federal Information System Controls Audit Manual (FISCAM) assessment to ensure consistency with government auditing standards. The expected completion date for the limited FISCAM is late in Quarter 1 of FY 2013.

A major challenge the PMO is addressing is how to efficiently automate data extraction processes required to support formal audit testing and the reconciliation of transaction level data to the Navy's financial statements. The PMO is working to catalogue manual processes to automate them and ultimately reconcile them to data



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extracts used by DFAS to create the financial statements (e.g., Statement of Budgetary Resources).

## Deployment

The deployment strategy for the Navy ERP has been optimized to match capabilities with the receiving Commands' readiness to reduce risk, improve support quality, increase training effectiveness, allow adequate time for data conversion, stabilize the capability after deployment, and incorporate lessons learned from deployment for continuous process improvement. The Navy ERP implements an evolutionary acquisition approach with incremental development and delivery of capability. Specifically, the Navy ERP Program comprises a single increment with two capabilities:

- Financial and Acquisition Management
- Wholesale and Retail Supply.

Navy ERP deployments completed to date are summarized below by capability.

### Financial and Acquisition Management

- NAVAIR deployed October 2007
- NAVSUP deployed October 2008
- SPAWAR deployed October 2009
- NAVSEA (General Fund) deployed October 2010
- NAVSEA (Working Capital Fund) deployed October 2011
- ONR and SSP scheduled October 2012

### Wholesale and Retail Supply

- Phase 1 of NAVSUP Weapons System Support Deployment began February 2010 with users active in the system March 2010 and stabilized six months later.

- Phase 1 Fleet Logistics Center (FLC) and partner sites deployment began in July 2011.
- Phase 2 FLC and partner sites deployment began in November 2011.
- Phase 3 FLC and partner sites deployment began in March 2012.
- Phase 4 FLC and partner sites deployment will begin in August 2012.

## Financial Reporting Impact

If Navy ERP were deployed across the entire Navy command structure, significant expected efficiencies and cost savings in audit readiness and execution would be achieved by a single financial system of record using standardized processes and financial data, embedded internal controls, consistent reporting mechanisms, and a single system interface to multiple legacy systems. Without complete deployment, there is an expected high cost of initial audit and increasing annual costs due to managing multiple business processes using disparate financial systems of record, compliancy issues with legacy systems, exception testing of internal controls, reconciliation of multiple sources of business data, content, and reporting formats, and complexity associated with interface gaps.

## ERP Progress and Plan Charts

Figure III-6 provides a summary view of the DON audit readiness and ERP plans. It also identifies the changes to milestones from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported. Following Figure III-6 are ERP Progress and Plan Charts. There is one chart for each ERP being deployed by the DON. These charts provide an overview and information on legacy systems, interfaces, program cost, and milestones.





## Navy ERP

### Overview

- Navy ERP Program was deployed in a single increment with two releases: (1) Financial and Acquisition Management, and (2) Wholesale and Retail Supply.
- Deployment: Financial and Acquisition Management deployed to all four SYSCOMS with Office of Naval Research (ONR) and Strategic Systems Program (SSP) to complete in October 2012. Wholesale and Retail Supply deployed with one of four phases remaining to complete August 2012. To date, 66,000 of 72,000 users currently are in production.
- Successful Operational Testing completed April 2009.
- Challenges:
  - Change Management: Transitioning to industry best business practices in a risk adverse environment has required strong leadership, effective user training and communications, and responsive on-site user support.
  - Legacy Data Conversion: The quality, broad scope of data types, and huge volumes provided challenges for data conversion. These risks were mitigated through legacy data cleansing, mock data conversions, and use of advanced data conversion tools.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	26
Legacy Systems to Be Sunsetting	70
Legacy Systems Interfaced to Date	48
Legacy Systems to Be Interfaced	0

Notes to Table: 96 systems total will be retired by FY 2016. All legacy systems have been interfaced.

### Financial Improvement Impact

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
RDT&E	\$315.7	\$315.7
Procurement	\$64.8	\$87.9

Notes to Table: Program cost is shown in Then Year dollars. To Date cost is through FY 2011.

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	04/2012	11/2012
Access Controls	04/2012	11/2012
Configuration Management Controls	04/2012	11/2012
Segregation of Duties Controls	04/2012	11/2012
Contingency Planning Controls	04/2012	11/2012
Completeness Controls	04/2012	11/2012
Accuracy Controls	04/2012	11/2012
Validity Controls	04/2012	11/2012
Confidentiality Controls	04/2012	11/2012
Availability Controls	04/2012	11/2012



# Department of Navy



## Navy ERP

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A		08/2004	08/2004	0%
Milestone B		08/2004	08/2004	0%
Initial Operating Capability (IOC)/Initial Deployment	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	01/2008	05/2008	0
Milestone C	GLM, BRM, PayM, RecM, Cost Management (CM), Fund Balance with Treasury Mgmt (FBWTM)	09/2007	09/2007	0%
Full Deployment Decision (FDD)	GLM, BRM, PayM, RecM, CM, FBWTM	09/2010	06/2011	~47%
Full Deployment (FD)	GLM, BRM, PayM, RecM, CM, FBWTM, PropM	08/2013	08/2013*	~50%

\* Acquisition Program Baseline Threshold.



## Global Combat Support System – Marine Corps (GCSS-MC)

### Overview

- GCSS-MC provides the core of a modern, web-enabled, centrally managed, Commercial Off the Shelf ERP software system.
- GCSS-MC supports the Global Combat Support Systems – Marine Corps/Logistics Chain Management and the Logistics Information Systems Portfolio and is the primary technology enabler for the Marine Corps Logistics Modernization strategy providing the backbone for all logistics information required by the Marine Air Ground Task Force.
- The system is being fielded through a series of cutover strategies with Increment 1 being fielded in two releases. Currently, it is being fielded to over 36,000 Marine users, and Release 1.2 is undergoing Follow-on Test and Evaluation (FOT&E).

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	0
Legacy Systems to Be Sunsetting	4
Legacy Systems Interfaced to Date	13
Legacy Systems to Be Interfaced	0

### Financial Improvement Impact

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
RDT&E	\$274.6	\$274.6
Procurement	\$59.1	\$122.6

Notes: Cost at completion extends through FY 2023.

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	05/2011	03/2010
Access Controls	05/2011	03/2010
Configuration Management Controls	05/2011	03/2010
Segregation of Duties Controls	05/2011	03/2010
Contingency Planning Controls	08/2011	08/2011
Completeness Controls	03/2010	Daily
Accuracy Controls	07/2010	11/2010
Validity Controls	07/2010	11/2010
Confidentiality Controls	05/2011	03/2010
Availability Controls	05/2011	03/2010



# Department of Navy



## Global Combat Support System – Marine Corps (GCSS-MC)

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A		07/2004	07/2004	0
Milestone B		06/2007	06/2007	0
Initial Operating Capability (IOC) / Initial Deployment	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	N/A	06/2010	0
Limited Fielding Decision (LFD)	GLM, BRM, PayM, RecM	N/A	03/2010	0
Milestone C	GLM, BRM, PayM, RecM, Cost Management (CM), Fund Balance with Treasury Mgmt (FBWTM)	05/2010	05/2010	0
Limited Release for FOT&E	ADM Release for FOT&E	07/2012	TBD	0
Full Deployment Decision (FDD)*	GLM, BRM, PayM, RecM, CM, FBWTM	12/2012	TBD	0
Full Deployment (FD)**	GLM, BRM, PayM, RecM, CM, FBWTM, PropM	07/2013	TBD	0
Continued Fielding Release 1.1		03/2010	TBD	0

Notes to Table:

\* Acquisition Program Baseline approved April 29, 2010.

\*\* Determined at FDD.

GCSS-MC is not fully fielded and is not an audited system as of the date of this report. As such, no costs are being reported at this time.

### Financial Reporting Impact

The Marine Corps utilizes the Defense Property Accountability System (DPAS) for Military Equipment Valuation (MEV) and incorporation of ME Capitalized Assets onto the USMC Financial Statements. GCSS-MC has a Capability Development Document (CDD) requirement for Inventory Valuation for Fixed Assets (IV/FA) that was deferred from Block 1 of implementation. The Marine Corps will utilize DPAS through the FIAR audit assertion process for MEV due to the GCSS-MC requirement being deferred.

Inventory balance and valuation of OM&S is transferred to Standard Accounting, Budgeting and Reporting System (SABRS) via the I-025 (GL Journal Interface) and I-021 (GL Funds Check Interface) interfaces.



# Department of Navy



## DON FIAR RESOURCES

DON FIAR funding is categorized by the following areas: Audit Readiness, Audit/Validation, and Financial Systems. Each of these areas is explained below, and the amounts applied to each are presented in Figure III-7.

**Audit Readiness** includes the resources for evaluation, discovery, and corrective actions of DON and its service providers (e.g., Defense Finance and Accounting Service [DFAS]) and documenting and/or modifying processes and controls, identifying internal control deficiencies through testing and remediation of deficiencies, and evaluating transaction-level evidential matter to ensure that it is readily available. Also included are the resources for activities to test or verify audit readiness after completing corrective actions, and prepare management assertion packages.

**Validations and Audits** includes the resources for validations, examinations, and financial statement audits conducted by independent public accountants (IPAs).

**Financial Systems** includes the resources for designing and achieving an audit ready systems environment. This includes ERP deployment costs. It also includes the resources to make needed and cost effective changes to legacy systems that will be part of the audit ready systems environment.

Financial System resources include: design, development, deployment, interfaces, data conversion and cleansing, system independent verification, validation and testing, implementation of controls and control testing, and system and process documentation.

Figure III-7. DON FIAR Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Audit Readiness</b>	\$ 63	\$ 69	\$ 65	\$ 97	\$ 82	\$ 63	\$ 62	\$ 60
Process Review and Remediation	53	51	40	64	61	41	40	38
DFAS Audit Readiness Support		4	17	21	12	-	-	-
Internal Audit Costs	10	14	8	12	9	22	22	22
External Audit Costs	-	7	10	8	11	35	35	35
<b>Audit Readiness and Validations and Audits Subtotal</b>	<b>\$ 63</b>	<b>\$ 76</b>	<b>\$ 75</b>	<b>\$ 105</b>	<b>\$ 93</b>	<b>\$ 98</b>	<b>\$ 97</b>	<b>\$ 95</b>
<b>Financial Systems</b>								
Non-Enterprise Resource Planning Systems (ERPs)	8	4	12	12	12	8	8	8
Navy ERP	206	228	205	136	-	-	-	-
Global Combat Support System - Marine Corps	113	138	98	110	-	-	-	-
Future Personnel and Pay System	28	33	72	1	1	1	1	1
<b>Financial Systems Subtotal</b>	<b>\$ 355</b>	<b>\$ 403</b>	<b>\$ 387</b>	<b>\$ 259</b>	<b>\$ 13</b>	<b>\$ 9</b>	<b>\$ 9</b>	<b>\$ 9</b>
<b>Total Resources</b>	<b>\$ 418</b>	<b>\$ 479</b>	<b>\$ 462</b>	<b>\$ 364</b>	<b>\$ 106</b>	<b>\$ 107</b>	<b>\$ 106</b>	<b>\$ 104</b>



# Department of Navy



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## IV. Air Force Audit Readiness Plans

The leadership of the Department of the Air Force (Air Force) is engaged and committed to achieving audit readiness. This important requirement and commitment extends to the highest levels – both military and civilian. The Air Force Vice Chief of Staff and the Under Secretary of the Air Force issued a memorandum emphasizing the importance of audit readiness and directing all senior civilians to include audit readiness objectives in their annual performance plans. Additionally, senior uniformed leadership is engaged in audit readiness, and audit readiness was an agenda topic at CORONA meetings, where top ranking leaders and four-star generals meet for frank and open discussions and decision making.

Audit readiness cannot be achieved in a vacuum, and Airmen in all functional communities and at all ranks must understand how their actions impact the goal of achieving full audit readiness by September 30, 2017. To help raise FIAR awareness within the Air Force, a new logo and tagline were developed. The message is simple – “Accountability From Flightline to Bottomline,” and the logo (Figure IV-1) keeps a style consistent with the Air Force tradition. The new logo and message help make FIAR a part of everyday operations throughout the Air Force and will be used in all FIAR-related communications.

In January 2012, the Air Force held an audit readiness summit for financial management representatives from the MAJCOMs and headquarters staff. Participants in the summit developed a plan to institutionalize and operationalize audit readiness through existing programs, described ways for MAJCOM and base personnel to support audit readiness, and examined existing performance metrics that could be used Air Force wide. Additionally, the Air Combat Command established a working group to assist Wings and Installations within

their MAJCOM with audit readiness. Other Air Force MAJCOMs are establishing similar teams.

Figure IV-1. Air Force FIAR Logo



The Air Force Enterprise Resource Planning systems (ERPs) will not be fully deployed by 2014. As a result, the Air Force will rely on manual controls and legacy system enhancements in order to meet the FY 2014 goal of audit readiness for the SBR. The accelerated goal for the SBR presents other challenges, as well as opportunities. For example, the time and resources required to conduct testing will increase because manual controls are generally less reliable and require more testing than system controls. The difficulty of collecting supporting documents processed in multiple systems and reconciling data as it moves from one system to another is also a challenge. To meet the FY 2014 goal, the Air Force will work assessable units concurrently and require additional contractor and auditing expertise to conduct discovery and corrective action efforts.



# Department of Air Force



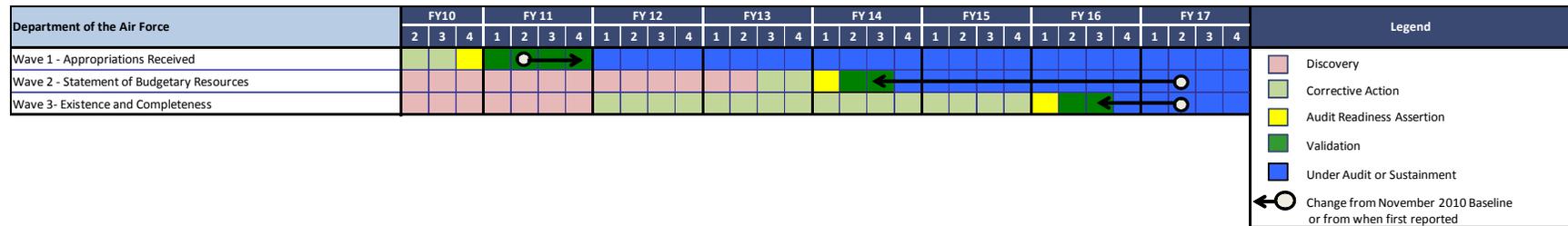
Air Force leadership recognizes there is a moderate risk in the FY 2014 target given the challenges. However, leadership is monitoring progress and addressing issues. The FIAR work conducted in the legacy system environment will better inform the design or enhancements of the ERPs and strengthen the long-term sustainability of audit readiness into the future.

Since the November 2011 FIAR Plan Status Report, the Air Force asserted audit readiness for the existence and completeness of

Uninstalled Spare Engines and Missile Motors, and a DoD Inspector General examination was started on the existence and completeness assertion for Military Equipment, Cruise Missiles, and Aerial Targets.

Figure IV-2 provides a summary view of the Air Force audit readiness plans for Wave 1, Appropriations Received; Wave 2, SBR; and Wave 3, Existence and Completeness of Mission Critical Assets. The figure also identifies milestone changes from the baseline established in the November 2010 FIAR Plan Status Report.

**Figure IV-2. Air Force Summary Audit Readiness Plans by Wave**





## STATEMENT OF BUDGETARY RESOURCES (WAVE 1 AND WAVE 2)

The Air Force strategy focuses on the life-cycle of appropriated funds. The Air Force, in coordination with DFAS, developed a methodology for audit readiness of the SBR focused around four assessable units that cover funds receipt and distribution, obligations, outlays, reimbursements, and reconciliation processes that ultimately impact all of the sections of the SBR.

Since the November 2011 FIAR Plan Status Report, the Air Force began balance and control testing on Funds Distribution to Base, Civilian Pay, Military Pay, and Reimbursable Budget Authority and Obligations. These accomplishments inform Air Force leadership of the process and system changes required to pass an audit for these processes.

### Appropriations Received (Wave 1)

The Air Force received an unqualified audit opinion from an IPA firm on August 3, 2011, on its Appropriations Received assertion. The IPA recommended procedures to facilitate a reconciliation of Budget Authority down to the base level. The Air Force implemented these enhancements and will assert on this process in Quarter 1 of FY 2013.

### Statement of Budgetary Resources (Wave 2)

On October 21, 2011, the Air Force received a clean opinion on its Fund Balance with Treasury – Reconciliation process. Further, the Air Force continues to make progress on the Reimbursements assessable unit, which comprises Spending Authority and the reimbursement life-cycle. Still, Air Force audit readiness of the SBR requires overcoming significant challenges.

First and foremost, the Air Force does not have a transaction-based general ledger or the ability to trace financial transactions from business events to the financial statements and back. This problem is a

direct result of a legacy accounting system based on 1960s accounting policies, processes, and procedures. The Air Force solution is a multi-pronged effort that includes the implementation of two ERPs, Defense Enterprise Accounting and Management System (DEAMS) and Expeditionary Combat Support System (ECSS), as well as instituting business process improvements. Currently, DEAMS is operational at Scott Air Force Base, and the Air Force plans to conduct interim audits to validate the effectiveness of the system and its ability to address key control objectives. Lessons learned and findings will result in corrective actions for the roll out of DEAMS and ECSS to the rest of the Air Force.

The Air Force created a tiger team comprised of Air Force Financial Management, DFAS Audit Readiness Office, and IPA personnel to construct a detailed Quantitative Drill Down from the SBR to the individual-transaction level. This action will provide each of the SBR assessable unit teams with a critical component of the Discovery phase, as well as the ability to identify any shortcoming in legacy controls and reconciliations necessary in the ERP environment. This approach assists in tracing transactions from the SBR to individual transactions in feeder systems, and then the Air Force will not be completely reliant on DEAMS for audit readiness. To sustain audit readiness, however, the Air Force will require an accounting system that is USSGL compliant. The current legacy system does not have this capability.

The Air Force continues to seek other ways to accelerate audit readiness of the SBR in the current environment as the ERPs are deployed throughout the Air Force.

### SBR Assessable Units

Figure IV-3 provides a summary view of the Air Force audit readiness plans for the SBR by assessable unit. The figure also identifies the changes from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported. The SBR assessable units are:

- Funds Distribution to Base



# Department of Air Force



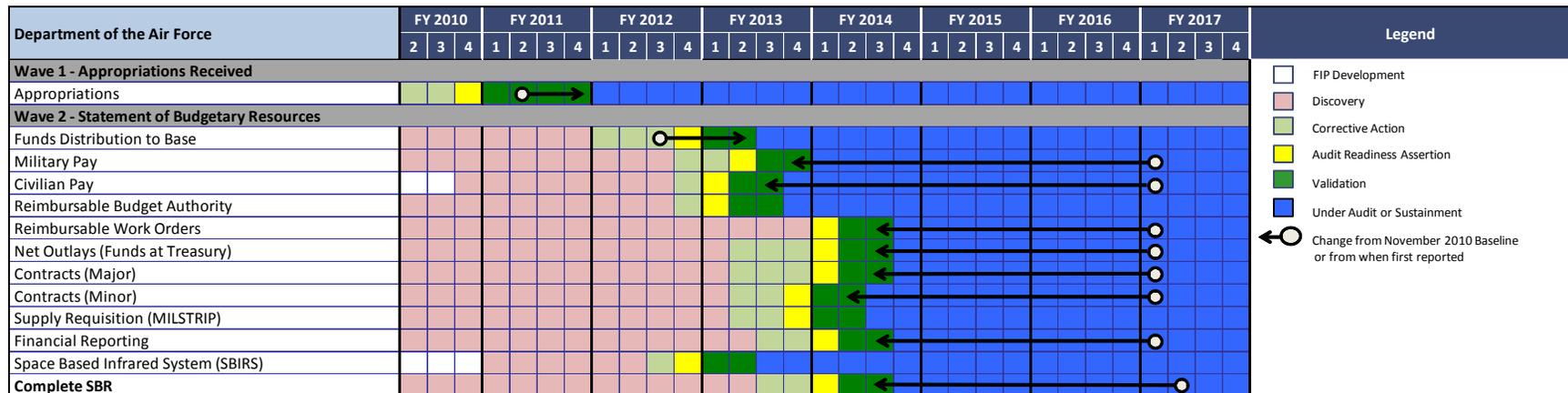
- Military Pay
- Civilian Pay
- Reimbursable Budget Authority
- Reimbursable Work Orders
- Net Outlays (Funds at Treasury)
- Contracts (Major)
- Contracts (Minor)
- Supply Requisition (MILSTRIP)
- Financial Reporting

- Spaced Based Infrared System Acquisition Program

## Assessable Unit Progress and Plan Charts

Following Figure IV-3 are SBR Assessable Unit Progress and Plan Charts. There is one chart for each assessable unit being worked by the Air Force to achieve SBR audit readiness in FY 2014. These charts comprise three sections: strategy, milestones, and outcomes. The strategy section notes the Air Force's strategy to achieve audit readiness. The milestone section shows the dates for completing the FIAR phases. The outcomes table identifies the outcomes of audit readiness, the date the audit readiness outcomes will be completed, and the accountable entities.

Figure IV-3. Air Force SBR Audit Readiness Plans by Wave





# Department of Air Force



## Funds Distribution to Base

### Strategy Summary

- Builds on previous Appropriations Received/Funds Distribution to MAJCOM assertion.
- Implemented cross-system reconciliation between the funds distribution system, accounting system, and general ledger.
- Implemented standard document number funding targets.
- Established a strategic communication plan to share lessons learned and issues identified during the MAJCOM control testing.
- Provide training to base and MAJCOM level personnel on what it means to be “audit ready” versus ready for operational audits.
- Assertion date has slipped. See page IV-40 for more information.

### Milestones (✓ = Completed)

FIAR Phases	As Planned	Completion
Discovery	02/2012	✓
Process Documentation	11/2011	✓
Test Plans	02/2012	✓
Conduct Control Testing	02/2012	✓
Conduct Balance Testing	02/2012	✓
Implement Corrective Actions	02/2012	7/2012
Validate Corrective Actions	02/2012	8/2012
<b>Assertion</b>	<b>03/2012</b>	<b>09/2012</b>

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Current year funds distributed are recorded timely in the Distribution System.	SAF/FMB	09/2012
Current year funds distributed are valid and recorded accurately in the Distribution System.	SAF/FMB	09/2012
Current year sub-allotments are recorded timely.	SAF/FMB	09/2012
Current year sub-allotments are valid and recorded accurately.	SAF/FMB	09/2012
Current year funds distributed are recorded timely.	SAF/FMB	09/2012
Current year funds distributed are valid and recorded accurately.	SAF/FMB	09/2012
Other activity (e.g., undistributed amounts) is recorded accurately in the General Ledger balance with current year funds distributed within the organization.	DFAS	09/2012
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	SAF/FMP, DFAS	09/2012



# Department of Air Force



## Military Pay

### Strategy Summary

- Perform reconciliation between Military Personnel Data System and Defense Joint Military Pay System to identify and validate personnel and financial mismatched data.
- Conduct a reconciliation of monthly Military Payroll (Active, Reserve, and Air National Guard).
- Review DoD OIG and GAO reports to develop Corrective Action Plans and correct existing weaknesses, if necessary.
- Review and update, as necessary, training for Defense Joint Military Pay System users (Auditors/Certifiers).
- Leverage DFAS Military Pay SSAE 16 process flows, testing, and corrective actions for controls reliance. Identify controls not covered by SSAE 16 and implement other assessment procedures.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	06/2012
Process Documentation	✓
Test Plans	05/2012
Conduct Control Testing	06/2012
Conduct Balance Testing	06/2012
Implement Corrective Actions	10/2012
Validate Corrective Actions	12/2012
<b>Assertion</b>	<b>03/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Personnel data are recorded timely.	HAF/A1	12/2012
Personnel data are valid and recorded accurately.	HAF/A1	12/2012
Payroll is calculated and processed accurately.	DFAS	12/2012
Payroll obligations, expenses, accruals, and disbursements are recorded timely.	SAF/FM, DFAS	12/2012
Payroll obligations, expenses, accruals, and disbursements amounts are valid and recorded correctly.	SAF/FM, DFAS	12/2012
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	SAF/FM, DFAS	12/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives.	DFAS, DISA	12/2012



# Department of Air Force



## Civilian Pay

### Strategy Summary

- Reconcile financial statements to detailed transactions to ensure identification of the complete population of transactions.
- Test controls to determine if key control objectives are effective and documentation is available and supports business events.
- Recalculate payroll samples from source documents to leave and earnings statements.
- Develop, complete, and execute corrective action plans for known deficiencies and weaknesses, for example, the lack of a documentation trail in leave requests and approvals. The Air Force is looking to move from manual processing to the Automated Time Attendance and Production System (ATAAPS).
- Partner with AFPC and HAF/A1 to ensure SMEs are available, audit readiness is given the appropriate attention, and key process owners are involved throughout the entire Discovery phase.

### Milestones (✓ = Completed)

FIAR Phases	As Planned	Completion
Discovery	03/2012	05/2012
Process Documentation	12/2011	✓
Test Plans	03/2012	✓
Conduct Control Testing	03/2012	✓
Conduct Balance Testing	03/2012	✓
Implement Corrective Actions	07/2012	07/2012
Validate Corrective Actions	09/2012	09/2012
<b>Assertion</b>	<b>12/2012</b>	<b>12/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Personnel data are recorded timely.	HAF/A1	09/2012
Personnel data are valid and recorded accurately.	HAF/A1	09/2012
Payroll is calculated and processed accurately.	DFAS	09/2012
Payroll obligations, expenses, accruals, and disbursements are recorded timely.	DFAS	09/2012
Payroll obligations, expenses, accruals, and disbursements amounts are valid and recorded correctly.	DFAS	09/2012
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year.	DFAS	09/2012
Material systems achieve relevant FISCAM IT general and application-level control objectives.	DFAS, DISA, SAF/FMPS	11/2012



# Department of Air Force



## Reimbursable Budget Authority

### Strategy Summary

- Controls over reimbursable spending authority will be improved by correctly mapping business events supporting reimbursable authority to the appropriate general ledger accounts.
- Business process improvements will ensure reimbursable obligation authority is properly recorded and controlled for both apportioned and auto-apportioned appropriations.
- Leverage work performed (where applicable) and lessons learned from the Funds Distribution to MAJCOM assertion and audit, as well as the Funds Distribution to Base assertion.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	05/2012
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Conduct Balance Testing	✓
Implement Corrective Actions	07/2012
Validate Corrective Actions	09/2012
<b>Assertion</b>	<b>12/2012</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Unfilled customer orders are recorded timely.	SAF/FMB	12/2012
Unfilled customer orders are valid and recorded accurately.	SAF/FMB	12/2012
Revenue, advances, and IPAC collections are recorded timely.	SAF/FMB,DFAS	12/2012
Revenue, advances, and IPAC collections are valid and recorded accurately.	SAF/FMB,DFAS	12/2012
Stale or invalid unfilled customer orders and uncollected customer payments/accounts receivable are removed.	SAF/FMB	12/2012
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	SAF/FMP, DFAS	12/2012



# Department of Air Force



## Reimbursable Work Orders

### Strategy Summary

- Create a second set of Budgetary Activity Codes for reimbursable execution of Operations and Maintenance funds. This will allow the Air Force to separately identify reimbursable execution (obligations and outlays performed to fulfill a reimbursable work order) from direct execution. This separation will ensure reimbursable execution does not exceed offsetting collections and provide the necessary support for reimbursable billings to both federal and non-federal customers.

### Milestones

FIAR Phases	Completion
Discovery	07/2013
Process Documentation	11/2012
Test Plans	01/2013
Conduct Control Testing	04/2013
Conduct Balance Testing	04/2013
Implement Corrective Actions	05/2013
Validate Corrective Actions	06/2013
<b>Assertion</b>	<b>12/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	SAF/FMB	12/2013
Obligations are valid and recorded accurately.	SAF/FMB	12/2013
Accruals and payables are recorded timely.	SAF/FMB,DFAS	12/2013
Accruals and payables are valid and recorded accurately.	SAF/FMB,DFAS	12/2013
IPAC disbursements and advances are recorded timely.	SAF/FMB,DFAS	12/2013
IPAC Disbursements and advances are valid and recorded accurately.	SAF/FMB,DFAS	12/2013
Stale or invalid obligations and accruals are removed.	SAF/FMB,DFAS	12/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	DFAS	12/2013



# Department of Air Force



## Net Outlays (Funds at Treasury)

### Strategy Summary

- FBWT Reconciliation assertion validated by an IPA October 2011.
- Partnered with DFAS, which performs most of the processes and controls in support of Net Outlays. Work products will be coordinated and vetted with DFAS subject matter experts.
- Detailed transactions (including journal vouchers) within the accounting system (GAFS-R/BQ) will be reconciled to the GAFS-R Trial Balance. The GAFS-R Trial Balance will be reconciled to the financial statements created by the reporting systems (DDRS-B/AFS).
- Coordinate with other assessable units to ensure hand-offs or dependencies are identified and gaps are addressed (e.g., Contracts Team ensures assets and/or services are received and recorded. Net Outlays Team ensures those assets and/or services are paid timely).
- Leverage DFAS Military Pay SSAE 16 process flows, testing, and corrective actions for controls reliance. Identify controls not covered by SSAE 16 and implement other assessment procedures.

### Milestones

FIAR Phases	Completion
Discovery	10/2012
Process Documentation	05/2012
Test Plans	06/2012
Conduct Control Testing	08/2012
Conduct Balance Testing	08/2012
Implement Corrective Actions	09/2013
Validate Corrective Actions	09/2013
<b>Assertion</b>	<b>12/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Disbursements and collections are reported timely.	DFAS	11/2013
Disbursements and collections are valid and reported accurately.	DFAS	11/2013
Treasury accounts are reconciled timely.	DFAS	11/2013
Reconciliations, including general ledger and disbursing system data, are accurate.	DFAS	11/2013
Reconciling items are identified timely.	DFAS	11/2013
Reconciling items are valid and resolved accurately.	DFAS	11/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	DFAS	11/2013



# Department of Air Force



## Contracts (Major)

### Strategy Summary

- Focused on the large dollar procurements that flow through the Mechanization of Contract Administration Service system.
- Partnered with DFAS and Air Force Acquisition Community to develop process narratives and flowcharts, validate quantitative drill down analysis, and prioritize sub-assessable units, and develop testing plans.
- Conduct internal control and transaction balance testing, and evaluate the supporting documentation for transactions.
- Develop corrective actions and implement changes.
- Leverage DFAS Military Pay SSAE 16 process flows, testing, and corrective actions for controls reliance. Identify controls not covered by SSAE 16 and implement other assessment procedures.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	10/2012
Process Documentation	✓
Test Plans	07/2012
Conduct Control Testing	08/2012
Conduct Balance Testing	08/2012
Implement Corrective Actions	07/2013
Validate Corrective Actions	07/2013
<b>Assertion</b>	<b>12/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	SAF/AQ, SAF/FM, DFAS	11/2013
Obligations are valid and recorded accurately.	SAF/AQ, SAF/FM, DFAS	11/2013
Accruals and/or payables are recorded timely.	DFAS	11/2013
Accruals and/or payables are valid and recorded accurately.	DFAS	11/2013
Disbursements are recorded timely.	DFAS	11/2013
Disbursements are valid and recorded accurately.	DFAS	11/2013
Stale or invalid obligations and accruals are removed.	SAF/FM,DFAS	11/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	SAF/AQ, SAF/FM, DFAS, DISA, DLA	11/2013



# Department of Air Force



## Contracts (Minor)

### Strategy Summary

- Focused on the procurement transactions that flow through the Integrated Accounts Payable System.
- Partner with DFAS and the Air Force Acquisition Community to develop process narratives and flowcharts, validate quantitative drill down analysis and prioritize sub-assessable units, and develop testing plans.
- Conduct internal control and transaction balance testing, and evaluate the supporting documentation available to support transactions.
- Develop corrective actions and implement changes, as needed.

### Milestones

FIAR Phases	Completion
Discovery	10/2012
Process Documentation	07/2012
Test Plans	10/2012
Conduct Control Testing	10/2012
Conduct Balance Testing	10/2012
Implement Corrective Actions	05/2013
Validate Corrective Actions	05/2013
<b>Assertion</b>	<b>08/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	SAF/AQ, SAF/FM,DFAS	07/2013
Obligations are valid and recorded accurately.	SAF/AQ, SAF/FM,DFAS	07/2013
Accruals and/or payables are recorded timely	DFAS	07/2013
Accruals and/or payables are valid and recorded accurately.	DFAS	07/2013
Disbursements are recorded timely.	DFAS	11/2013
Disbursements are valid and recorded accurately.	DFAS	11/2013
Stale or invalid obligations and accruals are removed.	SAF/FM,DFAS	07/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	SAF/AQ, SAF/FM,DFAS, DISA, DLA	07/2013



## Supply Requisition (MILSTRIP)

### Strategy Summary

- Perform quantitative drill down analysis and prioritize sub-assessable units.
- Document process narratives and flowcharts.
- Develop testing plans.
- Test internal controls, transaction balances, and document results.
- Develop corrective actions and implement changes.
- Retest, as necessary.

### Milestones

FIAR Phases	Completion
Discovery	10/2012
Process Documentation	07/2012
Test Plans	10/2012
Conduct Control Testing	10/2012
Conduct Balance Testing	10/2012
Implement Corrective Actions	03/2013
Validate Corrective Actions	03/2013
<b>Assertion</b>	<b>07/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Obligations are recorded timely.	SAF/AQ, SAF/FM,DFAS	06/2013
Obligations are valid and recorded accurately.	SAF/AQ, SAF/FM,DFAS	06/2013
Receipt and payables are recorded timely.	DFAS	06/2013
Receipt and payables are valid and recorded accurately.	DFAS	06/2013
Disbursements are recorded timely.	DFAS	11/2013
Disbursements are valid and recorded accurately.	DFAS	11/2013
Stale or invalid obligations and accruals are removed.	SAF/FM,DFAS	06/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	SAF/AQ, SAF/FM,DFAS, DISA, DLA	06/2013



## Financial Reporting

### Strategy Summary

- Design and implement reconciliations between source systems, imports, journal vouchers, and reporting systems to ensure completeness of financial information.
- Quantitative Drill Down (QDD) tiger team examining ability to trace lines on SBR through the general ledger to source system and, subsequently, to individual transactions.
- Plan testing strategy according to the results of the QDD and Self-Identified Issues or Deficiencies (SIID).
- Develop and implement SIID corrective actions.

### Milestones

FIAR Phases	Completion
Discovery	03/2013
Process Documentation	05/2012
Test Plans	02/2013
Conduct Control Testing	02/2013
Conduct Balance Testing	02/2013
Implement Corrective Actions	08/2013
Validate Corrective Actions	11/2013
<b>Assertion</b>	<b>12/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Trial balances (or equivalents) are produced timely.	DFAS	11/2013
Trial balances (or equivalents) are valid and accurate.	DFAS	11/2013
Trial balances (or equivalents) are loaded into DDRS-B timely.	DFAS	11/2013
Trial balances (or equivalents) are completely and accurately loaded into DDRS-B.	DFAS	11/2013
Trial balance data in DDRS-B are loaded into DDRS-AFS timely.	DFAS	11/2013
Trial balance data are completely and accurately loaded from DDRS-B into DDRS-AFS.	DFAS	11/2013
Adjustments recorded in DDRS-B and DDRS-AFS are recorded timely.	DFAS	11/2013
Adjustments recorded in DDRS-B and DDRS-AFS are valid and accurate.	DFAS	11/2013
SBR related footnotes and accompanying information is completed timely.	SAF/FM, DFAS	11/2013
SBR related footnotes and accompanying information is valid and accurate.	SAF/FM, DFAS	11/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	DFAS/DLA	11/2013



# Department of Air Force



## Space Based Infrared System (SBIRS) Acquisition Program

### Overview

- Demonstrate the ability to account for the funding provided to the program for FY 2008, FY 2009, and FY 2010, and perform a statistical sample of in-scope transactions to validate existence of supporting documentation.
- A total of 11 out of 19 Assertion Work Products (AWP) have been completed to date. An additional 4 AWP's have been submitted for review.
- Only impediment to asserting by September 30, 2012, is ability to obtain signed supporting documentation in a timely manner.

### Financial Improvement Impact

- Air Force gains a quick look into potential supporting documentation issues involving obligations and expenditures transactions in major acquisition contracts.
- Demonstrates the ability to account for and track funding for a major acquisition program.
- Validates Air Force has supporting documentation associated with the financial transactions of a major acquisition program.
- Demonstrates the process for obtaining supporting documentation for testing is repeatable.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Conduct Balance Testing	✓
Implement Corrective Actions	08/2012
Validate Corrective Actions	08/2012
<b>Assertion</b>	<b>09/2012</b>

### Audit Readiness Outcomes

Outcomes	Completion
Obligations are recorded in the correct period and within 10 days of award	08/2012
Obligations are recorded accurately and are valid	08/2012
Accruals and/or payables are recorded in the correct period and within 10 days of receipt	08/2012
Accruals and/or payables are valid and recorded accurately	08/2012
Disbursements are recorded in the correct period and within 10 days of payment	08/2012
Disbursements are valid and recorded accurately	08/2012
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year	08/2012
Material systems achieve the relevant FISCAM IT general and application-level control objectives	08/2012



## EXISTENCE AND COMPLETENESS OF ASSETS (WAVE 3)

The Air Force continues to execute its plan to assert existence and completeness of mission critical assets with a renewed focus on the validation of physical inventories, as well as the documentation of physical inventories performed and associated recordkeeping requirements. The Air Force relied heavily on the work completed by the Air Force Audit Agency (AFAA) to align existence and completeness assertions to a single Accountable Property System of Record (APSR). This strategy complies with Wave 3 existence and completeness audit readiness requirements while reducing the scope of existence and completeness audits to focus on all assets captured within one system.



The Air Force currently has an ongoing audit by the DoD OIG on the existence and completeness of Military Equipment, Operating Materials and Supplies (OM&S) - Cruise Missiles, and OM&S - Aerial Targets/Drones. The Air Force expects the audit for these areas to

conclude by June 30, 2012. Additionally, the Air Force asserted existence and completeness audit readiness for two assessable units of OM&S: Spare Engines and Uninstalled Missile Motors, and the assertions are under review by the OUSD(C).

The successful execution of the Air Force strategy for Wave 3 existence and completeness audit readiness, as well as other audit readiness initiatives, requires close coordination with functional staff throughout all Air Force Commands. To ensure the Air Force meets these goals, Senior Officials in Charge from the functional communities were assigned to each mission critical asset category, and audit readiness assertions were included in their performance goals. Additionally, for full audit readiness of existence and completeness, the Air Force is dependent on four service providers:

- U.S. Army Corps of Engineers and the Naval Facilities Engineering Command execute military construction activities for the Air Force (approximately 95 percent of all military construction projects).
- Defense Logistics Agency stores and manages inventory and supplies for the Air Force.
- Army serves as the Single Manager for Conventional Ammunition and has DoD-wide acquisition and production responsibilities for conventional munitions.

The Air Force is a member of the OUSD(C) Service Provider Working Group and is actively working with its service providers to ensure the Air Force will meet its milestones and audit readiness goals established for existence and completeness of mission critical assets.

### Existence and Completeness Assessable Units

Figure IV-4 provides a summary view of the Air Force audit readiness plans for the existence and completeness assessable units and changes from the baseline established in the November 2010 FIAR Plan Status





# Department of Air Force



## Military Equipment

### Strategy Summary

- Asserted December 2010.
- Currently under examination by DoD OIG. Report due June 2012.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the APSR are accurately and timely posted to the general ledger.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
Military equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LX, DFAS	✓
Military equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LX, DFAS	✓
Military equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LX, DFAS	✓
Military equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LX, DFAS	✓
Changes to military equipment (condition, location) are recorded in the APSR timely.	AF/A4LX	✓
Changes to military equipment (condition, location) are recorded accurately in the ASPR.	AF/A4LX	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4LX	✓



## General Equipment

### Strategy Summary

- Complete and execute corrective action plans for known deficiencies and weaknesses.
- Identify mitigating controls and substantive procedures to support assertion in absence of implemented corrective action plans.
- Conduct 100 percent equipment accountability inventory across Air Force to capture accurate baseline in Discovery phase.
- Develop process maps for Air Force Equipment Management System and Standard Base Supply System interfaces.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the APSR are accurately and timely posted to the general ledger.

### Milestones

FIAR Phases	Completion
Discovery	12/2013
Process Documentation	05/2013
Test Plans	08/2013
Conduct Control Testing	12/2013
Implement Corrective Actions	03/2015
Validate Corrective Actions	07/2015
<b>Assertion</b>	<b>09/2015</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
General equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LE, DFAS	07/2015
General equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LE, DFAS	07/2015
General equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LE, DFAS	07/2015
General equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LE, DFAS	07/2015
Changes to general equipment (condition, location) are recorded in the APSR timely.	AF/A4LE	09/2015
Changes to general equipment (condition, location) are recorded accurately in the ASPR.	AF/A4LE	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4I	09/2015



## Real Property

### Strategy Summary

- Assess risks and controls for material life-cycle processes (acquisition, physical inventory, and disposal) and document supporting documentation and retention requirements.
- Develop test plans to select random samples and execute test of key internal controls and supporting documentation.
- Reconcile detail asset schedules to APSR summary schedules and financial statements, and perform data mining of key financial and management data elements.
- Execute testing of material life-cycle processes and define, implement, and monitor corrective action plans for known deficiencies and weaknesses, and retest upon completion.
- Ensure internal controls are transitioned into the NexGen IT environment.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	07/2012
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	07/2012
Implement Corrective Actions	01/2013
Validate Corrective Actions	04/2013
<b>Assertion</b>	<b>06/2013</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Construction in progress (CIP) is recorded the general ledger timely.	HAF/A7C	06/2013
CIP is recorded accurately in the general ledger.	HAF/A7C	06/2013
Completed CIP, other acquisitions, and transfers-in are recorded in the APSR and general ledger timely.	HAF/A7C	06/2013
Completed CIP, other acquisition, and transfers-in are recorded accurately in the APSR and general ledger.	HAF/A7C	06/2013
Real property disposals and transfers-out are recorded in the APSR and general ledger timely.	HAF/A7C	06/2013
Real property disposals and transfers-out are recorded accurately in the APSR and general ledger.	HAF/A7C	06/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	HAF/A7C	06/2013



# Department of Air Force



## OM&S (Cruise Missiles)

### Strategy Summary

- Asserted in June 2011.
- Currently under examination by DoD OIG. Report due June 2012.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the APSR are accurately and timely posted to the general ledger.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
Changes to OM&S (condition, location) are recorded in the APSR timely.	AF/A4L	✓
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AF/A4L	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4L	✓



# Department of Air Force



## OM&S (Aerial Targets/Drones)

### Strategy Summary

- Asserted in June 2011.
- Currently under examination by DoD OIG. Report due June 2012.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the APSR are accurately and timely posted to the general ledger.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
Changes to OM&S (condition, location) are recorded in the APSR timely.	AF/A4L	✓
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AF/A4L	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4L	✓



# Department of Air Force



## OM&S (Spare Engines)

### Strategy Summary

- Assertion completed in March 2012.
- Examination scheduled to begin September 2012.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the APSR are accurately and timely posted to the general ledger.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
Changes to OM&S (condition, location) are recorded in the APSR timely.	AF/A4L	✓
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AF/A4L	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4L	✓



# Department of Air Force



## OM&S (Uninstalled Missile Motors)

### Strategy Summary

- Assertion completed in March 2012.
- Examination scheduled to begin September 2012.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the APSR are accurately and timely posted to the general ledger.

### Milestones (✓ = Completed)

FIAR Phases	Completion
Discovery	✓
Process Documentation	✓
Test Plans	✓
Conduct Control Testing	✓
Implement Corrective Actions	✓
Validate Corrective Actions	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4L, DFAS	✓
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4L, DFAS	✓
Changes to OM&S (condition, location) are recorded in the APSR timely.	AF/A4L	✓
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AF/A4L	✓
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4L	✓



# Department of Air Force



## OM&S (Munitions)

### Strategy Summary

- Develop draft process flow for Perform Inventory Management and Maintenance and Repair sub-process.
- Map key risks, control objectives, and supporting documents to the process flows.
- Develop APSR interfaces with U.S. Army depot and contractor service provider APSRs.
- Develop a reconciliation process with DFAS to ensure transactions and property recorded in the APSR are accurately and timely posted to the general ledger.

### Milestones

FIAR Phases	Completion
Discovery	12/2013
Process Documentation	06/2012
Test Plans	11/2012
Conduct Control Testing	12/2013
Implement Corrective Actions	02/2014
Validate Corrective Actions	03/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	US Army, SAF/AQ, DFAS, AF/A4LW	03/2014
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	US Army, SAF/AQ, DFAS, AF/A4LW	03/2014
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	US Army, AF/A4LW, DFAS	03/2014
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	US Army, AF/A4LW, DFAS	03/2014
Changes to OM&S (condition, location) are recorded in the APSR timely.	AF/A4LW	12/2013
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AF/A4LW	12/2013
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4IS	12/2013



# Department of Air Force



## OM&S (Spares, Air Force Managed)

### Strategy Summary

- Discovery for OM&S Spares (Air Force Managed) is planned to begin in FY 2013.
- Leverage lessons learned from past assertions and audits to ensure milestones are completed on time or ahead of schedule.
- Created an Air Force Materiel Command (AFMC)/DLA Project Plan to have a service provider Memorandum of Understanding in place by May 2012.

### Milestones

FIAR Phases	Completion
Discovery	12/2013
Process Documentation	06/2013
Test Plans	08/2013
Conduct Control Testing	12/2013
Implement Corrective Actions	03/2014
Validate Corrective Actions	05/2014
<b>Assertion</b>	<b>06/2014</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AFMC/A4	05/2014
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	05/2014
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AFMC/A4	05/2014
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	05/2014
Changes to OM&S (condition, location) are recorded in the APSR timely.	AFMC/A4	05/2014
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AFMC/A4	05/2014
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AFMC/A4	05/2014



# Department of Air Force



## OM&S (Spares, Contractor Managed and Contractor Possessed)

### Strategy Summary

- Work with OSD to determine FIAR requirements for contractor-managed property arrangements (e.g., Contractor-Supported Weapon Systems and Contractor Logistics Support).
- Ensure FIAR requirements are included in contract language.
- Develop interfaces between contractors' property systems and government systems to ensure property and transactions are captured at the appropriate level of detail.
- Develop a reconciliation process with DFAS to ensure assets and transactions in the APSR are recorded timely and accurately in the general ledger.

### Milestones

FIAR Phases	Completion
Discovery	12/2013
Process Documentation	05/2013
Test Plans	08/2013
Conduct Control Testing	12/2013
Implement Corrective Actions	03/2015
Validate Corrective Actions	07/2015
<b>Assertion</b>	<b>09/2015</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LM, DFAS	07/2015
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LM, DFAS	07/2015
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LM, DFAS	07/2015
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LM, DFAS	07/2015
Changes to OM&S (condition, location) are recorded in the APSR timely.	AF/A4LM	07/2015
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AF/A4LM	07/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4I	07/2015



## OM&S (Spares, Contractor Managed and Air Force Possessed)

### Strategy Summary

- Work with OSD to determine FIAR requirements for contractor-managed property contracts (e.g., Contractor-Supported Weapon Systems and Contractor Logistics Support).
- Ensure FIAR requirements are included in contract language.
- Develop interfaces between contractors' property systems and government systems to ensure property and transactions are captured at the appropriate level of detail.
- Develop a reconciliation process with DFAS to ensure assets and transactions in the APSR are recorded timely and accurately in the general ledger.

### Milestones

FIAR Phases	Completion
Discovery	12/2013
Process Documentation	05/2013
Test Plans	08/2013
Conduct Control Testing	12/2013
Implement Corrective Actions	03/2015
Validate Corrective Actions	07/2015
<b>Assertion</b>	<b>09/2015</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
OM&S acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LM, DFAS	07/2015
OM&S acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LM, DFAS	07/2015
OM&S disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LM, DFAS	07/2015
OM&S disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LM, DFAS	07/2015
Changes to OM&S (condition, location) are recorded in the APSR timely.	AF/A4LM	07/2015
Changes to OM&S (condition, location) are recorded accurately in the ASPR.	AF/A4LM	07/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4I	07/2015



## Inventory

### Strategy Summary

- The existence and completeness assertion work for the working capital fund inventory has been divided into five sub-assessable units: Base-Managed, Medical/Dental, Contractor-Held, In-Transit, and DLA-Managed.
- Will assert existence and completeness for each of the five sub-assessable units separately.
- The assertion date for the Base-Managed inventory is March 2013.
- The assertion date for the Medical/Dental inventory is September 2013.
- Created an AFMC and DLA Project Plan to have a service provider MOA in place by May 2012.

### Milestones

FIAR Phases	Completion
Discovery	07/2015
Process Documentation	05/2015
Test Plans	06/2015
Conduct Control Testing	07/2015
Implement Corrective Actions	08/2015
Validate Corrective Actions	09/2015
<b>Assertion</b>	<b>12/2015</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
Inventory acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AFMC/A4	09/2015
Inventory acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Inventory disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AFMC/A4	09/2015
Inventory disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AFMC/A4	09/2015
Changes to inventory (condition, location) are recorded in the APSR timely	AFMC/A4	09/2015
Changes to inventory (condition, location) are recorded accurately in the ASPR.	AFMC/A4	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AFMC/A4	09/2015



# Department of Air Force



## Government Furnished Equipment (GFE)

### Strategy Summary

- Execute a GFE data call to establish a baseline within the Air Force Equipment Management System (AFEMS).
- Revise policy for providing GFE (includes both Equipment and Materiel) to contractors to ensure accountability is sustained.
- Develop reconciliation process between loan records in Air Force property systems, the Item Unique Identification (IUID) Registry, and contract attachments listing authorized GFE.
- Develop a reconciliation process with DFAS to ensure assets and transactions in the APSR are recorded timely and accurately in the general ledger.

### Milestones

FIAR Phases	Completion
Discovery	03/2014
Process Documentation	08/2013
Test Plans	03/2014
Conduct Control Testing	03/2014
Implement Corrective Actions	03/2014
Validate Corrective Actions	03/2015
<b>Assertion</b>	<b>09/2015</b>

### Audit Readiness Outcomes

Outcomes	Accountable Entity	Completion
General equipment acquisitions are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LE, DFAS	09/2015
General equipment acquisitions are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LE, DFAS	09/2015
General equipment disposals are recorded in the APSR and general ledger (or DDRS-AFS) timely.	AF/A4LE, DFAS	09/2015
General equipment disposals are recorded accurately in the APSR and general ledger (or DDRS-AFS).	AF/A4LE, DFAS	09/2015
Changes to general equipment (condition, location) are recorded in the APSR timely.	AF/A4LE	09/2015
Changes to general equipment (condition, location) are recorded accurately in the ASPR.	AF/A4LE	09/2015
Material systems achieve relevant FISCAM IT general and application-level general control objectives.	AF/A4I	09/2015



## ENTERPRISE RESOURCE PLANNING SYSTEMS

Air Force auditability is dependent on establishing an audit ready systems environment that includes successfully deploying Enterprise Resource Planning (ERP) systems that interface with other business and financial systems. The key Air Force system modernizations are:

- Defense Enterprise Accounting and Management System (DEAMS)
- Expeditionary Combat Support System (ECSS)
- Air Force Integrated Personnel Pay System (AF-IPPS)
- NexGen IT

The ERPs were designed to replace numerous subsidiary systems, reduce the number of interfaces, and standardize and eliminate redundant data entry, while providing an environment for end-to-end business processes. The ERPs serve as the foundation for sustainable Air Force audit readiness from FY 2017 and beyond. The Air Force ERPs will not be fully deployed by 2014. As a result, the Air Force will rely on manual controls and legacy system enhancements in order to meet the FY 2014 goal of audit readiness for the SBR. Senior Leadership within the Air Force will review corrective action plans for IT systems to determine the business case and impacts to sustained audit readiness of the legacy environment. The Air Force remains committed to the ERP solutions and will continue to collaborate to provide auditable, accurate, reliable, and timely financial information.

The DEAMS is a joint Air Force and U.S. Transportation Command (USTRANSCOM) effort to establish a transaction-based general ledger that will standardize and streamline processes, improve data quality, and form the foundation of Air Force auditability. Currently, DEAMS is deployed at Scott Air Force Base and DFAS Limestone, Maine, and is on track to successfully achieve Milestone B in Quarter 2 of FY 2012. In preparation for further deployment of DEAMS, the Air

Force is conducting audit readiness assessments to validate configuration of the system and internal controls. Findings from the audit will further inform the Air Force on progress toward auditability. The Air Force will seek to resolve and mitigate any issues discovered while still working toward full deployment throughout the Air Force and USTRANSCOM.

The ECSS program is currently under a Critical Change Assessment. With a focus on audit readiness goals, the Department of Defense and the Air Force are reviewing the strategy and required capabilities for the ECSS program. Once the Critical Change Report is complete and submitted, the Air Force will be able to report on milestones and cost for the program going forward. The Critical Change Report should be complete in Quarter 3 of FY 2012.

The AF-IPPS is the Air Force's future integrated personnel and pay system that will consolidate Guard, Reserve, and Active Duty Military into a single system for personnel and pay related services. The Air Force and DFAS are working together to ensure when AF-IPPS is implemented the system and processes support audit readiness. In FY 2012, the Air Force Audit Agency will conduct an analysis of AF-IPPS to ensure audit readiness requirements have been captured.

Air Force Real Property NexGen IT is critical and supports the assertion on Real Property. The modernization will leverage industry best practices, optimize core business processes, and replace existing information technology capabilities with a commercial off-the-shelf software solution to perform real estate portfolio and lease management, space management (moves, adds, and changes), and maintenance management for real property throughout the Air Force. The Air Force Audit Agency has supported the Air Force Functional communities to ensure audit requirements are captured.

Figure IV-5 provides a summary view of the Air Force audit readiness and ERP plans, as well as changes from the baseline established in the November 2010 FIAR Plan Status Report or from when first reported.

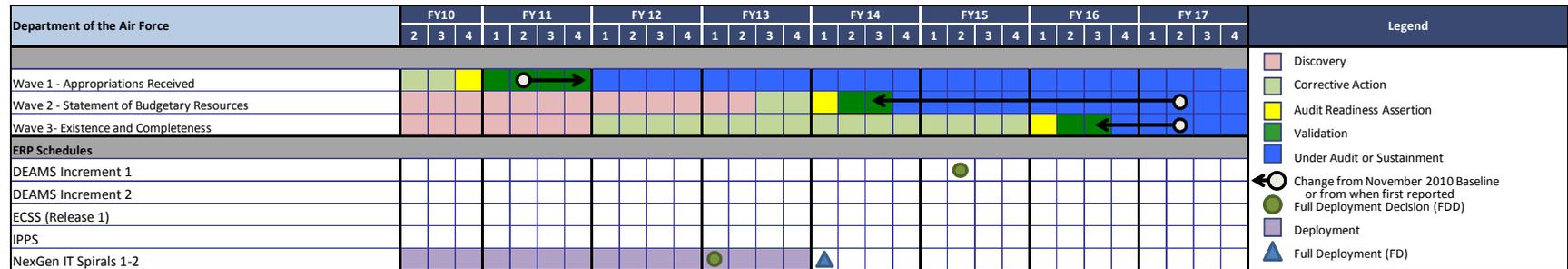


# Department of Air Force



Following Figure IV-5 are individual charts providing information on each ERP.

**Figure IV-5. Air Force Audit Readiness and Enterprise Resource Planning System Plans**



Note: Milestone information is provided for each ERP in charts that follow this figure.



## DEAMS Increment 1

### Overview

Single Automated Accounting and Financial Management Execution System for USTRANSCOM and Air Force.

- Audit Readiness complies with relevant laws, regulations, and policies; permits agile response to statutory, regulatory, and policy changes; enables clean audit opinions; attains unqualified assurances on internal controls; assists resolution of existing material weaknesses; and supports analysis of financial events.
- The deployment strategy is phased by Major Command and location in MAJCOM.
- Tech Demo Spiral 2 – Delivered capability for procure-to-pay; property, plant, and equipment; order-to-cash; billing and project accounting including transaction-based general ledger to Scott AFB, May 2010 – successful closeout of FY 2010/FY 2011 and opening of FY 2012.
- For the remaining deployment strategy see the Implementation Milestones table on the following page.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	0
Legacy Systems to Be Sunsetting	8
Legacy Systems Interfaced to Date	36
Additional Legacy Systems to be Interfaced (Includes all of Inc 1 Production and Inc 2)	72

Note to Table: Source Systems Requirements Document version 1.8 (5 Dec 2011)

### Program Cost

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
RDT&E	\$229.3	\$591.1
Procurement	\$11.4	\$50.0
Operations and Maintenance	\$41.3	\$151.7
Transportation Working Capital Fund – Capital	\$122.9	\$126.8
Transportation Working Capital Fund – Operating	\$16.3	\$32.2

Note to Table: Program costs to date and at completion by appropriation for Increment 1 to support full auditability by FY 2017 are provided. The “At Completion” amount does not include the 10 years of sustainment cost as reflected in the APB, nor does it include Increment 2 costs.

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	11/2012	12/2012
Access Controls	11/2012	12/2012
Configuration Management Controls	11/2012	12/2012
Segregation of Duties Controls	11/2012	12/2012
Contingency Planning Controls	11/2012	12/2012
Completeness Controls	11/2012	12/2012
Accuracy Controls	11/2012	12/2012
Validity Controls	11/2012	12/2012
Confidentiality Controls	11/2012	12/2012
Availability Controls	11/2012	12/2012



# Department of Air Force



## DEAMS Increment 1

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A		04/2005	04/2005	0
Inc 1 Tech Demo	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM), Property Management (PropM)	07/2010	07/2010	6%
Inc 1 Milestone B		02/2012	01/2012	
Limited Fielding Decision (LFD)		9/2012		
Inc 1 Production Release 1 – AMC Bases without Transportation Working Capital Funds (TWCF)	GLM, BRM, PayM, RecM, PropM	04/2013		7%
Inc 1 Production Release 2 – AMC Bases with TWCF	GLM, BRM, PayM, RecM, PropM, FBWT (GF)	10/2013		9%
Inc 1 Production Release 3 – Upgrade to Oracle R12	GLM, BRM, PayM, RecM, PropM, FBWT (GF)	05/2014		14%
Inc 1 Production Release 4 – HQ US TRANSCOM, HQ Surface Deployment and Distribution Command	GLM, BRM, PayM, RecM, PropM, FBWT (GF)	07/2014		57%
Inc 1 Milestone C		08/2014		
Inc 1 Full Deployment Decision (FDD)		02/2015		
Inc 1 Production Release 5 – Remaining AF CONUS bases	GLM, BRM, PayM, RecM, PropM, FBWT (GF)	01/2016		59%
Inc 1 Production Release 6 – PACAF, USAFE bases	GLM, BRM, PayM, RecM, PropM, FBWT (GF)	07/2016		68%
Inc 1 Full Deployment (FD)		TBD		68%
Inc 2 Milestone B		TBD		
Inc 2 Milestone C		TBD		
Inc 2 Full Deployment Decision		TBD		
Inc 2 Release 1 – AF Materiel Command, AF Space Command	GLM, BRM, PayM, RecM, PropM, FBWT (GF & WCF), Cost Management (CM)	TBD		99%
Inc 2 Release 2 – Foreign military sales, Contingency operations	GLM, BRM, PayM, RecM, PropM, FBWT (GF & WCF), CM	TBD		100%



# Department of Air Force



## Financial Reporting Impact

DEAMS is a crosscutting Financial Management system utilizing standardized, transaction-based, general ledger producing, Standard Financial Information Structure (SFIS) compliant data. DEAMS will produce financial statements for the Transportation Working Capital Fund (TWCF) and the USAF General Fund (GF) – becoming the Air Force System of Record replacing the General Accounting Finance System (GAFS) and the Integrated Accounts Payable System (IAPS), and other financial feeder systems. DEAMS is a key component to the overall FIAR Plan and strategy to address current financial management challenges, including resolving material weaknesses; improving timeliness and accuracy of financial management information; supporting consistent financial reporting to the Department; enabling Business Process Reengineering (BPR); and providing a systematic road to clean audit opinions.



# Department of Air Force



## Air Force – IPPS

### Overview

- FFMIA compliant and supporting FY 2017 financial auditability.
- Functionality in ERP supports audit readiness General Controls and Application Controls.
- Integrates personnel and pay processes into one COTS ERP.
- Enables transformation military personnel and pay processing.
- Maintains authoritative member record throughout AF career.
- Comprehensive 24/7 self-service, web-based solution.
- In line with SECAF “3 to 1” Initiative.
- Releases: (1) Leave, (2) Cadets, (3) Officers, (4) Enlisted, (5) Upgrade.
- RFP release planned for Quarter 3 of FY 2012.
- Challenges: Network and Processor Monitoring/Performance, Legacy Data Management, Common-Infrastructure Governance, Synchronization between AF-IPPS implementation and other AF systems modernization.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	0
Legacy Systems to Be Sunsetting	23
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	92

Note to Table: Source Systems Requirements Document version 1.8 (December 5, 2011)

### Program Cost

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
RDT&E	\$47.6	\$709.3
Procurement	\$0	\$59.8

Note to Table: To Date (through FY 2011) based on actuals and At Completion (through FY 2027) based on AF-IPPS Service Cost Position dated June 2011.

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	TBD	
Access Controls	TBD	
Configuration Management Controls	TBD	
Segregation of Duties Controls	TBD	
Contingency Planning Controls	TBD	
Completeness Controls	TBD	
Accuracy Controls	TBD	
Validity Controls	TBD	
Confidentiality Controls	TBD	
Availability Controls	TBD	

Note to Table: AF-IPPS is an unbaselined MAIS program. Information Technology Controls will be tested post contract award.



# Department of Air Force



## Air Force – IPPS

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A		TBD		0
Milestone B		TBD		0
Initial Operating Capability (IOC)/Initial Deployment	General Ledger Mgmt (GLM), Budgetary Resource Mgmt (BRM), Payment Mgmt (PayM), Receivable Management (RecM)	TBD		0
Limited Fielding Decision (LFD)	GLM, BRM, PayM, RecM	TBD		0
Release/Wave 1	GLM, BRM, PayM, RecM	TBD		0
Release/Wave 2	GLM, BRM, PayM, RecM	TBD		0
Milestone C	GLM, BRM, PayM, RecM, Cost Management (CM), Fund Balance with Treasury Mgmt (FBWTM)	TBD		0
Full Deployment Decision (FDD)	GLM, BRM, PayM, RecM, CM, FBWTM	TBD		0
Release/Wave 3	GLM, BRM, PayM, RecM, CM, FBWTM, Property Management (PropM)	TBD		0
Full Deployment (FD)	GLM, BRM, PayM, RecM, CM, FBWTM, PropM	TBD		0

Note: AF-IPPS is an unbaselined MAIS program. Implementation Milestones and Audit Readiness Related Information will be baselined at MS B.

### Financial Reporting Impact

AF-IPPS will be a major financial feeder system to DEAMS that will produce SFIS compliant data. AF-IPPS will be replacing two major legacy systems, DJMS and MilPDS, along with 21 other personnel and pay legacy systems. For the 2014 FIAR Plan, all legacy systems related to personnel and pay will be audited for the SECDEF directed SBR audit. Based on the results of the 2014 audit readiness review, AF-IPPS will ensure to implement legacy system lessons learned in the development of requirements. Those weaknesses in the legacy systems will be remediated in the A1 and financial management functional areas and synchronized with AF ERP partners. AF-IPPS is a Total Force application and is connected to the overall Air Force FIAR Plan and strategy to address current financial management challenges by 2017.



# Department of Air Force



## NexGen IT Capability Groups 1 and 2

### Overview

NexGen IT Capability Groups 1 and 2 is a commercial off-the-shelf software tool developed by IBM Tririga to provide an Integrated Workplace Management Solution that provides core functionality for Air Force Office of the Civil Engineer (AF/A7C). The system provides the following functionality: Real Estate Management, Work and Supply Management, Project Management, and Energy Management. The metrics included in this document pertain only to Capability Groups 1 and 2.

A Blanket Purchase Agreement was awarded in July 2011, and the system is undergoing configuration to AF/A7C processes. Initial Operating Capability is targeted for October 2012 with an enterprise-wide deployment to occur immediately afterward.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	0
Legacy Systems to Be Sunsetting	8
Legacy Systems Interfaced to Date	0
Legacy Systems to Be Interfaced	22

### Program Cost

Program Cost by Appropriation	To Date (\$M)	At Completion (\$M)
RDT&E	\$3.7	\$9.7
Procurement	\$0	\$6.1

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	06/2013	
Access Controls	06/2013	
Configuration Management Controls	06/2013	
Segregation of Duties Controls	06/2013	
Contingency Planning Controls	06/2013	
Completeness Controls	06/2013	
Accuracy Controls	06/2013	
Validity Controls	06/2013	
Confidentiality Controls	06/2013	
Availability Controls	06/2013	



# Department of Air Force



## NexGen IT Capability Groups 1 and 2

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A	Not applicable. NexGen IT entered the lifecycle at Milestone B.	-	-	0
Milestone B	Contract award to IBM Tririga.	07/2011	07/2011	0
Limited Fielding Decision (LFD)	Completed and approved Design, Configuration, Validation, and Testing (through Test Readiness Review I) of the following capabilities: Real Estate Management, Work and Supply Management, Energy Management, Program Management, Cost Accounting	09/2012		10%
Milestone C	All Testing activities through Field Readiness Review	09/2012		15%
Initial Operating Capability (IOC)/Initial Deployment	Deployment of capabilities at Joint Base Andrews	10/2012		20%
Full Deployment Decision (FDD)	Successful deployment of capabilities at IOC	10/2012		20%
Full Deployment (FD)	Successful deployment of capabilities across AF enterprise	12/2013		100%

### Financial Reporting Impact

NexGen IT will be the authoritative source for real property asset management and accountability serving as the financial feeder system for Air Force financial statement reporting.

The Cost Accounting function in NexGen IT will support the financial components associated with Capability Groups for 1 and 2. For Operations, this includes the allocation and accumulation of cost associated with the work and supply management lifecycle, e.g., work order costs, government purchase card, and material acquisition transactions. The Cost Accounting capability manages the calculation of shop rates and the tracking of costs associated with reimbursable customers, including service and utility contracts, and the tracking of costs as required for the capitalization and reporting of real property assets.



# Department of Air Force



## MISSED MILESTONES SINCE LAST STATUS REPORT

### Missed Milestones

Since the November 2011 FIAR Plan Status Report, the Air Force missed one milestone, as identified below.

#### Missed Milestone:

Funds Distribution to Base Assertion

#### Original Milestone Date:

March 31, 2012

#### Reason Milestone Was Missed:

During internal control and balance testing, the Air Force discovered a lack of adequate supporting documentation, as well as questionable reconciliation results. These have generated a requirement for several corrective actions, which need to be implemented and tested in order for Air Force management to assert audit readiness for Funds Distribution to Base.

### Impact on Achieving Auditability in FY 2017:

None

### Revised Milestone Date:

September 30, 2012

### Actions to Ensure Milestone Will Be Met:

The Air Force will prepare guidance to address documentation shortfalls, issue policy clarifications, and continue working with DFAS to resolve AFM and GAFS-BL reconciliation concerns.



# Department of Air Force



## AIR FORCE FIAR RESOURCES

The amount of resources applied to FIAR continues to evolve as the Air Force executes its FIP, evaluates financial and business operations and systems, and engages the functional community. The Air Force FIAR funding categories are:

- Audit Readiness
- Audit/Validation
- Financial Systems

The amount of resources also is impacted by evaluation, testing, and corrective actions to achieve an audit ready systems environment outside the ERPs. Figure IV-6 shows the amounts for each area.

**Audit Readiness** includes the resources for Air Force and its service providers (e.g., DFAS) for evaluation, discovery, and corrective actions to include documenting and modifying processes and controls, identifying internal control deficiencies through testing and remediation of deficiencies, and evaluating transaction-level evidential

matter and ensuring that it is readily available. Also included are resources for testing or verification of audit readiness after completing corrective actions and preparation of management assertion packages.

**Validations and Audits** includes the resources for validations, examinations, and financial statement audits conducted by an independent public accounting (IPA) firm.

The Air Force Audit Agency (AFAA) also is dedicating significant resources to directly support the Air Force FIAR plan and is auditing several SBR assessable units, identifying weaknesses, and developing recommendations to be incorporated in corrective action plans.

**Financial Systems** includes the resources for designing and achieving an audit ready systems environment, including ERP deployment costs. It also includes the resources to modify legacy systems that will be part of the audit ready systems environment. Financial System resources include: design, development, deployment, interfaces, data conversion and cleansing, system independent verification and validation and testing, implementation of controls and control testing, and system and process documentation.



# Department of Air Force



Figure IV-6. Air Force FIAR Resources (\$ in Millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Audit Readiness</b>	\$ 12	\$ 35	\$ 48	\$ 76	\$ 93	\$ 47	\$ 43	\$ 52
Process Review and Remediation	\$ 12	\$ 22	\$ 33	\$ 60	\$ 81	\$ 35	\$ 31	\$ 40
DFAS Audit Readiness Support		\$ 8	\$ 10	\$ 11	\$ 7	\$ 7	\$ 7	\$ 7
Internal Audit Costs		5	5	5	5	5	5	5
External Audit Costs	-		1	2	2	31	31	31
<b>Audit Readiness and Validations and Audits Subtotal</b>	\$ 12	\$ 35	\$ 49	\$ 78	\$ 95	\$ 78	\$ 74	\$ 83
<b>Financial Systems</b>								
Non-ERPs	70	68	69	84	75	54	49	40
Defense Enterprise Accounting Management System	87	60	90	107	126	127	72	32
Expeditionary Combat Support System	291	318	139	59	127	127	150	7
Integrated Pay and Personnel System	30	38	91	117	128	126	85	60
NexGen IT	-	7	12	9	6	2	2	1
<b>Financial Systems Subtotal</b>	\$ 478	\$ 491	\$ 401	\$ 376	\$ 462	\$ 436	\$ 358	\$ 140
<b>Total Resources</b>	\$ 490	\$ 526	\$ 450	\$ 454	\$ 557	\$ 514	\$ 432	\$ 223



## Other Defense Organizations

### V. Other Defense Organizations Audit Readiness Plans

This section of the Report provides the status and plans of the other Defense organizations (ODOs). For purposes of the FIAR Plan, the ODOs include:

- U.S. Special Operations Command
- U.S. Transportation Command
- Defense Agencies
- Intelligence Community Defense Agencies
- DoD Field Activities
- Chemical Biological Defense Program
- Military Retirement Fund
- Medicare-Eligible Retiree Health Care Fund
- Other various organizations and accounts that receive DoD appropriated funds

The Intelligence Community (IC) Defense Agencies are following the audit readiness strategy of the Office of Director of National Intelligence (ODNI) and are preparing their financial statements for audit in FY 2016. The IC Agencies audit strategy incorporates the DoD FIAR priorities (e.g., Statement of Budgetary Resources).

Not all of the ODOs prepare annual financial statements. For example, Treasury Index 97 (TI 97) Environmental Restoration funds are specifically described in the law as funds that can be executed only by transferring them out of its unique Treasury Account Fund Symbol to other Defense Agencies or Military Services for further execution. Any balance not transferred is not reported individually, but is included in the DoD Combined Financial Statements.

### ODO AUDIT OPINIONS

Several of the ODOs that prepare annual financial statements have unqualified audit opinions. These ODOs include:

- Defense Contract Audit Agency
- Defense Commissary Agency
- Defense Finance and Accounting Service
- Defense Information Systems Agency – Working Capital Fund
- Office of the Inspector General
- TRICARE Management Activity – Contract Resource Management
- Military Retirement Fund

The Medicare-Eligible Retiree Health Care Fund (MERHCF) received a qualified opinion on its FY 2011 financial statements.

The ODOs that have not received opinions on their financial statements or on their financial information reported in the DoD Combined Financial Statements have revised their Financial Improvement Plans (FIPs) in accordance with the DoD FIAR Guidance and are working to achieve audit readiness of the General Fund Statement of Budgetary Resources (SBR) in FY 2014.

The ODO milestones for achieving the FIAR priorities are presented in Figure V-2. It also identifies changes to milestones since the November 2010 FIAR Plan Status Report or from when first reported.



## Other Defense Organizations

### ODO FIAR Oversight

The majority of the ODOs report to an Office of Secretary of Defense (OSD) Principal Staff Assistant (PSA). The role of the PSAs in the FIAR process is explained in Section VII of this Report. One of their roles is to ensure their respective ODOs are effectively and timely working to achieve the FIAR goals and priorities, including achieving SBR audit readiness in FY 2014, as well as following the DoD FIAR Guidance. Figure V-1 identifies the PSAs and their respective ODOs that have not asserted SBR audit readiness.

**Figure V-1. PSAs and ODOs**

PSA	Other Defense Organizations
USD(AT&L)	Chemical Biological Defense Program
	Defense Advanced Research Projects Agency
	Defense Contract Management Agency
	Defense Logistics Agency
	Defense Technical Information Center
	Defense Threat Reduction Agency
	Missile Defense Agency
USD(P)	Defense Security Cooperation Agency
USD(P&R)	DoD Education Activity
	Service Medical Activity
	TRICARE Management Activity – Financial Operations Division
DoD CIO	Defense Information Systems Agency – General Fund

### AUDIT READY SBR (WAVE 1 & WAVE 2)

To comply with the Secretary’s direction to achieve SBR audit readiness for General Funds by the end of FY 2014, the ODOs that are not yet audit ready expanded their review of Internal Controls over Financial Reporting (ICOFR) to achieve audit readiness over

budgetary information first. These ODOs are evaluating and documenting the processes, controls, and systems that affect the SBR.

Using an expanded scope of ICOFR documentation and audit remediation work, several ODOs asserted audit readiness for Appropriations Received (Wave 1) in FY 2011. These assertions were based on the processes supported by the Program Budget Allocation System (PBAS) and legacy financial systems. The ODOs’ FIPs and audit readiness milestones are not expected to change unless they encounter significant issues in converting to the Enterprise Funds Distribution System that is currently being implemented.

Audit readiness for Wave 1, Appropriations Received, and Wave 2, SBR, is dependent on the ODOs’ ability to overcome the significant challenges briefly described below.

### Complex Business, Accounting Transactions and Reporting Structure

The ODOs’ greatest challenge is the structure of financial reporting, which is not aligned with their business process structure. For example, Congress does not appropriate funds to the individual Defense Agencies. Consequently the U.S. Treasury does not maintain fund balances for each ODO, but instead combines all ODO appropriated funds in one combined Treasury Account Symbol (TAS). An individual Defense Agency’s appropriated or executed funds are identified through a combination of the Treasury Account Fund Symbol (TI-97) and Limit, a complicated identification structure that makes it difficult to identify cross-disbursed transactions. In addition, the smaller ODOs, such as the Defense Media Activity or the Pentagon Force Protection Agency, are not provided separate Limits that would allow for reconciling individual, identifiable balances. The sharing of the TI97 and related fund symbols makes the identification and verification of ODO FBWT balances very complex and challenging.

Further, the ODOs annually allot and sub-allot a significant amount of their TI-97 funds to the Military Departments. These ODO funds then are included in Military Department accounting systems, which are in



## Other Defense Organizations

the midst of transitioning to various Enterprise Resource Planning (ERP) systems. System constraints for tracking allotments, suballotments, and allocations, which are subdivisions of apportioned amounts, presents another significant challenge for ODOs. The Military Departments' transition to ERPs will play a key role in resolving these issues.

### Defense Agencies Initiative

The Defense Agencies Initiative (DAI) is an ERP being deployed to the Defense Agencies and will improve their ability to achieve and sustain auditable SBR balances. The DAI, which meets federal systems requirements, will provide essential accounting functionality needed for auditability, such as audit trails from general ledgers to subsidiary ledgers and to transaction-level supporting documentation. The ODOs have developed their FIPs consistent with the DAI implementation schedule.

### SBR Assessable Unit Progress and Plan Charts

Following Figure V-2 are Assessable Unit Progress and Plan Charts for each ODO that is working to achieve SBR audit readiness in FY 2014. These charts provide an overview describing their FIAR status and other information, strategy to achieve audit readiness, and a milestone section identifying the assessable units and planned dates for completing testing and corrective actions.



# Other Defense Organizations

Figure V-2. Other Defense Organizations SBR (Wave 1 & Wave 2) Audit Readiness Plans

Other Defense Organization*	FY 2010			FY 2011			FY 2012			FY 2013			FY 2014			FY 2015			FY 2016			FY 2017			Legend			
	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1		2	3	4
<b>Other Defense Organizations Currently Under or Approaching Audit</b>																												
Military Retirement Fund																												
TRICARE Management Activity - CRM																												
Medicare-Eligible Retiree Health Care Fund																												
Defense Commissary Agency																												
Defense Information Systems Agency - WCF																												
Defense Finance and Accounting Service																												
Defense Contract Audit Agency																												
Office of Inspector General, DoD																												
<b>Wave 1 - Appropriations Received</b>																												
DoD Component Level Accounts																												
Service Medical Activities (Army, Navy, Air Force)																												
Washington Headquarters Services																												
U.S. Special Operations Command																												
Missile Defense Agency																												
Other 97 Funds Provided to the Army by OSD																												
Defense Advanced Research Projects Agency																												
DoD Education Activity																												
TRICARE Management Activity - FOD																												
Defense Information Systems Agency - GF																												
Chemical Biological Defense Program																												
Defense Security Cooperation Agency																												
Defense Threat Reduction Agency																												
Defense Contract Management Agency																												
Defense Logistics Agency - GF																												
Military Retirement Fund Payments																												
<b>Wave 2 - Statement of Budgetary Resources</b>																												
DoD Component Level Accounts																												
Service Medical Activity (Army, Navy, Air Force)																												
Washington Headquarters Services																												
U.S. Special Operations Command																												
Missile Defense Agency																												
Other 97 Funds Provided to the Army by OSD																												
Defense Advanced Research Projects Agency																												
DoD Education Activity																												
TRICARE Management Activity - FOD																												
Defense Information Systems Agency - GF																												
Chemical Biological Defense Program																												
Defense Security Cooperation Agency																												
Defense Threat Reduction Agency																												
Defense Contract Management Agency																												
Defense Technical Information Center																												
Defense Logistics Agency - GF																												
Military Retirement Fund Payments																												

\* All material ODOs (with the exception of Intelligence Agencies) are presented in this table.



# Other Defense Organizations

## DoD Component Level Accounts

### Overview

- DoD Component Level Accounts assessable unit is a Department-wide account used to maintain Defense-Wide Appropriation balances that have not been distributed by the OUSD(C) and to accumulate Defense-Wide appropriations and transactions not identified for separate, internal reporting.
- Completed assessment of the Defense-wide funds receipt, distribution, and reporting process.
- Reconciled and validated FY 2011 Defense-Wide Appropriations to the various Defense organization financial statements, supporting documentation, and Appropriations Act.
- Assigned one full-time staff member to the DoD Component Level account.
- A challenge is there is no single Chief Financial Executive responsible for DoD Component Level Account.

### Strategy Summary

- Execute corrective action plans for deficiencies identified during the Defense-Wide assessment such as missing supervisory approval of adjustments and unsupported adjustments.
- Evaluate and finalize internal control process documentation related to the SBR compilation, test controls, and adequacy of supporting documentation.
- Complete development of a Funds Balance with Treasury transaction-level reconciliation tool for the Defense-Wide Accounts (Treasury Index 97).
- Test a new reconciliation process developed to support amounts reported as unallocated appropriations.

### Statement of Budgetary Resources Milestones

Assessable Units	Tested	Corrected
Appropriations Received	06/2012	06/2012
Fund Balance with Treasury	09/2013	03/2014
Financial Reporting	09/2013	03/2014
Other Budgetary Activity	07/2013	03/2014
<b>SBR Assertion</b>	<b>12/2013</b>	<b>03/2014</b>



## Other Defense Organizations

### Service Medical Activity (SMA) (Army, Navy, and Air Force)

#### Overview

- Provides healthcare services to TRICARE beneficiaries throughout the world and comprised of the Army Medical Command, Navy Bureau of Medicine and Surgery, and Air Force Medical Service.
- Asserted Wave 1, Appropriations Received, and Funds Distribution in FY 2011, which were validated as audit ready.
- Challenges:
  - Coordinating Military Service data conversions and data cleansing, to include obtaining supporting documentation for adjustments and timely receipt of information.
  - Obtaining detail transactions from the Military Service legacy and ERP systems and accurately mapping and reporting it in one consolidated financial statement.

#### Strategy Summary

- Define a methodology to map data from the Military Service legacy and ERP systems to ensure a complete universe of financial transactions and identify material assessable units.
- Ensure all key controls are documented, effectively designed, and mitigate the risk of material misstatement. This is accomplished through review of process flows, narratives, and control matrices for each Military Service.
- Coordinate and align testing approach and timelines with the Military Services and DFAS.
- Leverage system testing results to reduce the amount of testing required and possibly accelerate the assertion schedule.

#### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	03/2014
Vendor Pay	06/2012	03/2014
Civilian Pay	06/2012	03/2014
Reimbursable Work Orders – Grantor	06/2012	03/2014
Reimbursable Work Orders – Acceptor	06/2012	03/2014
Fund Balance with Treasury	06/2012	03/2014
Appropriations Received and Funds Distribution	✓	✓
Other Budget Authority	06/2012	03/2014
Financial Reporting	06/2012	03/2014
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Washington Headquarters Service (WHS)

### Overview

- WHS provides administrative and/or operational support to other field activities, Office of Secretary of Defense (OSD), Defense Agencies, and Military Departments.
- Approximately 75 percent of DoD appropriations reported in WHS financial statements are executed by other organizations and are not reported in WHS's accounting system. WHS receives these funds from OUSD(C) and immediately allots them to other organizations, or for a few accounts, OUSD(C) allots funds directly to the performer.
- Performed testing of Appropriations Received to include reconciliation of 1,600 funding authorization documents, and submitted interim documentation for OUSD(C) review.
- Coordinating with DFAS regarding assertion products and audit readiness support.
- A significant challenge is the organization receiving WHS allotted funds must provide detailed transactions, control activities, and supporting documentation to support WHS audit readiness.

### Strategy Summary

- WHS is working with funds recipients and OUSD(C) to facilitate receipt of supporting documentation needed for WHS accountability for funds provided to and executed by other organizations.
- Analyze and document end-to-end business processes of WHS material assessable units and coordinate support agreements with other organizations on their roles and responsibilities to support WHS assertions.
- Conduct regular meetings with financial management community and process owners on audit readiness efforts and responsibilities to leverage outcomes from various working groups to improve data quality, transaction processing, customer focus, and performance measurement addressing audit readiness objectives.
- WHS plans to migrate to an ERP, Enterprise Business Accountability System, in October 2012.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	03/2014
Vendor Pay	06/2012	03/2014
Civilian Pay	06/2012	03/2014
Reimbursable Work Orders – Grantor	06/2012	03/2014
Reimbursable Work Orders – Acceptor	06/2012	03/2014
Appropriations Received	✓	06/2012
<b>SBR Assertion</b>	<b>06/2012</b>	03/2014



# Other Defense Organizations

## U.S. Special Operations Command (USSOCOM)

### Overview

- USSOCOM provides fully capable Special Operations Forces to defend the United States and its interests.
- Asserted Wave 1, Appropriations Received, on February 2012.
- FIAR deadlines will be difficult to meet due to the large number of Component locations and limited staffing.
- USSOCOM is a joint combatant command whose headquarters, Components, and sub-unified commands use Military Service financial systems, processes, and controls.
- Dependent on Service legacy accounting systems and assurance over general and applications controls.
- Service Components are scheduled to implement ERPs with implementation schedules in most cases beyond the assertion date.

### Strategy Summary

- Establish teams to execute FIAR activities at Component locations and utilizing Component personnel to expedite the FIAR process.
- Conduct Component site visits by June 2012. Site visits will document processes and controls, including process narratives, develop flowcharts, and identify key controls.
- Test controls and source documentation and assess processes and policies during site visits.
- Coordinate with service providers to establish and document audit readiness roles and responsibilities by December 2012.
- Obtain necessary system documentation from service providers to include systems certification documentation.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	03/2014
Vendor Pay	06/2012	03/2014
Civilian Pay	06/2012	03/2014
Reimbursable Work Orders – Grantor	06/2012	03/2014
Reimbursable Work Orders – Acceptor	06/2012	03/2014
Fund Balance with Treasury	06/2012	03/2014
Appropriations Received	✓	✓
Financial Reporting	06/2012	03/2014
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Missile Defense Agency (MDA)

### Overview

- MDA is a research, development, and acquisition agency. As MDA develops, tests, and fields an integrated Ballistic Missile Defense System, it works closely with the Combatant Commanders who will rely on the system to protect the Nation, its forward deployed forces, and allies from hostile ballistic missile attack.
- Appropriations Received assertion was submitted in April 2012.
- Completed risk assessments, process narratives, flowcharts, and test plan design for all SBR assessable units.
- Civilian Pay reconciliation between the DAI, DCPS, and DCAS has been completed with no issues identified.
- A significant challenge is MDA does not own DAI or other systems impacting audit readiness and, therefore, relies on service providers to provide process and control assurance impacting MDA audit readiness.

### Strategy Summary

- Finalize process documentation, including testing and documentation of risk analyses for all SBR assessable units.
- Testing for Contract Pay and Reimbursable Grantor and Acceptor will include verification of invoices and MIPRs for accuracy, timeliness, and authorized approvals.
- Triannual Review process is used to identify overstated and stale obligations.
- Ensure standard reconciliation processes and other controls are in place and effective to support key supporting documentation testing and sustainment.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	03/2014
Vendor Pay	06/2012	03/2014
Civilian Pay	06/2012	03/2014
Reimbursable Work Orders – Grantor	06/2012	03/2014
Fund Balance with Treasury	06/2012	03/2014
Appropriations Received	✓	✓
Other Budget Authority	06/2012	03/2014
Financial Reporting	06/2012	03/2014
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Defense Advanced Research Projects Agency (DARPA)

### Overview

- DARPA maintains technological superiority of the U.S. military and prevents technological surprise from harming national security by sponsoring revolutionary, high-payoff research bridging the gap between fundamental discoveries and military use.
- Submitted three assertion packages (Appropriations Received, Civilian Pay, and Reimbursable Work Orders – Acceptor). All remaining packages are being worked concurrently to meet projected milestone dates.
- Challenges include a lack of resources and coordinated efforts with service providers, identifying correct data call process owners, and lack of ready access to transaction level detail, certain key supporting documents (KSDs), and other information (e.g., payroll records).
- Implementation of DAI will impact process and systems documentation. To mitigate this challenge, DARPA is reengineering business processes to update documentation, streamline processes, and enhance internal controls. To date, over 80 processes have been examined.

### Strategy Summary

- To mitigate challenges, DARPA engaged an “integrated team” in February 2012. The team brings together the FIAR experience of an IPA and data analysis, data warehousing, and systems engineering and integration expertise of a leading IT firm with deep experience retrieving and analyzing data from DARPA service providers. The goal of the team is to maximize efficiency in completing FIAR tasks by reducing time previously spent accessing transaction level detail and obtaining KSDs.
- While implementing DAI, DARPA will continue to phase out sub-allotting funds to eliminate historical roadblocks to audit readiness, such as DARPA’s dependency on Military Service accounting processes.
- Conducting control and documentation testing in increments throughout the period of assertion for each assessable unit, allowing DARPA to adequately assert to the effectiveness of controls throughout the entire period.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Appropriations Received	✓	✓
Other Budgetary Activity	06/2012	09/2012
Civilian Pay	✓	✓
Contract Pay	06/2012	06/2013
Vendor Pay	06/2012	06/2013
Fund Balance with Treasury	06/2012	03/2014
Financial Reporting	06/2012	03/2014
Reimbursable Work Orders – Grantor	06/2012	06/2013
Reimbursable Work Orders – Acceptor	✓	✓
Travel	✓	06/2012
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## DoD Education Activity (DoDEA)

### Overview

- DoDEA plans, directs, coordinates, and manages the education programs for eligible dependents of U.S. Military and DoD civilian personnel.
- Initial testing of Vendor Pay and Civilian Pay are complete.
- Developed corrective actions for control deficiencies in all assessable units for streamlining Funds Authorization Documents (FAD), increasing documentation requirements, changing business rules for recording accruals, establishing reviews of aged NULOs, correcting foreign currency fluctuations with improper charges, and creating a standard operating procedure to analyze irregularities in interagency acquisitions.
- Challenges include coordination with service providers for shared services, documentation management, legacy systems, and the Defense Agencies Initiative (DAI) implementation schedule coincides with audit readiness assertion date.

### Strategy Summary

- Test all activity for end-to-end business processes concurrently for each assessable unit to accelerate the completion of initial testing (e.g., all aspects of civilian pay will be tested concurrently).
- Coordinate with service providers to validate controls and assess supporting documentation.
- Enter into MOUs with service providers to document responsibilities, provide assertion support, and other support activities, as needed.
- Utilize a single data-pull strategy to consolidate efforts, where possible, and avoid repeatedly returning to the same test site to test controls and source documentation.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	05/2012	01/2014
Vendor Pay	✓	01/2014
Civilian Pay	✓	01/2014
Reimbursable Work Orders – Grantor	06/2012	01/2014
Reimbursable Work Orders – Acceptor	06/2012	01/2014
Fund Balance with Treasury	06/2012	01/2014
Appropriations Received	06/2012	06/2012
Financial Reporting	06/2012	01/2014
<b>SBR Assertion</b>	<b>06/2012</b>	<b>01/2014</b>



## Other Defense Organizations

### TRICARE Management Activity – Financial Operations Division (TMA-FOD)

#### Overview

- TMA-FOD mission is to manage TRICARE, execute the Defense Health Program Appropriation and DoD Unified Medical Program, and support the Uniform Services in implementation of the TRICARE Program.
- FBWT reconciliation limitations impede audit trails between Treasury transactions and TMA transactions. Audit challenges exist due to manual and labor intensive reconciliation process based on summary data.
- Pursuing a separate Agency Location Code designator for financial statement reporting. Other Defense Agencies share the same Treasury Account Fund Symbol, which causes the identification of data to lack an audit trail when traced back to Treasury reporting.
- Implemented DAI in November 2011. Data integrity issues resulted from converting data from legacy systems to new environment. Conducting a FISCAM review will provide assurance over the system controls and validates the integrity of data processing within the system.
- Asserted Wave 1, Appropriations Received, and Funds Distribution in FY 2011. OUSD(C) validation concluded Appropriations Received and Funds Distribution are ready for audit.

#### Strategy Summary

- DAI to provide transactional detail needed to meet assertion requirements and to provide an audit trail to financial statement line items.
- Phased reviews established in coordination with OUSD(C) will measure progress and validate each audit readiness task stated in the FIP.
- Finalize internal control process documentation including flowcharts and risk assessments for all the assessable units. Outcomes in internal controls testing will provide a basis for control assurance, as well as developing corrective actions to resolve encountered deficiencies.
- Completed Treasury reconciliations for Treasury Appropriations, collections and disbursements for all Treasury Account Fund Symbol accounts for the funding periods FY 2006 to FY 2011, which will establish and validate the beginning balances for FBWT and all related SBR line items.

#### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	09/2013
Vendor Pay	06/2012	09/2013
Civilian Pay	06/2012	09/2013
Reimbursable Work Orders – Grantor	06/2012	09/2013
Reimbursable Work Orders – Acceptor	06/2012	09/2013
Fund Balance with Treasury	06/2012	09/2013
Appropriations Received and Funds Distribution	✓	✓
Other Budget Authority	06/2012	09/2013
Financial Reporting	06/2012	09/2013
<b>SBR Assertion</b>	<b>06/2012</b>	<b>09/2013</b>



# Other Defense Organizations

## Defense Information Systems Agency (DISA) – General Fund

### Overview

- DISA engineers and provides command and control capabilities and enterprise infrastructure to continuously operate and assure a global net-centric enterprise in support to warfighters, National leaders, and other mission and coalition partners across the full spectrum of operations.
- Completed General Fund (GF) assertions for full financial statements as of September 30, 2007, submitted December 2007.
- In June 2010, an IPA completed independent validation of audit readiness of DISA’s GF full financial statements as of September 30, 2009.
- Remediated findings resulting from independent validation; including findings associated with unsupported PP&E, account maintenance, and financial compilation.
- DISA GF planning for an audit of FY 2012 financial statements.
- Lack of an ERP prohibits full compliance with FFMIA requirements and will result in noncompliance audit findings.

### Strategy Summary

- Share lessons learned from DISA audits with FIAR committees to raise awareness of “Corporate” issues.
- Support sustainment internally though internal control over financial reporting program.
- Validate audit readiness sustainment through annual independent audits.
- Aggressively pursue ERP solutions that will ensure compliance with FFMIA.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	✓	✓
Vendor Pay	✓	✓
Civilian Pay	✓	✓
Reimbursable Work Orders – Grantor	✓	✓
Reimbursable Work Orders – Acceptor	✓	✓
Fund Balance with Treasury	✓	✓
Appropriations Received	✓	✓
Financial Reporting	✓	✓
<b>SBR Assertion</b>	✓	✓



# Other Defense Organizations

## Chemical Biological Defense Program (CBDP)

### Overview

- CBDP provides chemical and biological defense capabilities in support of the national military strategies.
- Asserted Wave 1, Appropriations Received, in September 2011. OUSD(C) validation concluded that CBDP Appropriations Received and Funds Distribution process are ready for audit.
- Completed analyses identifying documentation requirements and retention policies for all assessable units. Completed financial statement line item reconciliations for the Contract Pay and Reimbursable Orders. Reconciliations for FBWT and Obligations, brought forward, are still in draft but on schedule to be completed by May 15, 2012.
- Completed materiality analyses to determine which line items will be selected for assessment to ensure that coverage of at least 99 percent is achieved.
- A significant challenge is that CBDP owns no IT systems and is reliant upon other DoD entities to provide assurance over the system controls.

### Strategy Summary

- CBDP is working audit readiness for all assessable units concurrently rather than consecutively. CBDP has established separate teams to work the individual assessable units.
- Finalize internal control process documentation including testing and documenting risk analyses for all assessable units. Testing for the assessable units Contract Pay and Reimbursable Grantor and Acceptor will include verification of invoices and MIPRs for accuracy, timeliness, and authorized approvals. CBDP also will use the Triannual Review Process to identify overstated obligations.
- Obtain documentation supporting audit readiness for CBDP utilized systems, including ERPs. DAI was implemented October 2011, and GFEBS will be implemented in July 2012.
- Obtain service provider documentation addressing internal control analyses and status of corrective action plans. Ensure standard reconciliation processes are in place to support key supporting documentation testing and sustainment.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	03/2014
Reimbursable Work Orders – Grantor	06/2012	03/2014
Reimbursable Work Orders – Acceptor	06/2012	03/2014
Fund Balance with Treasury	06/2012	03/2014
Appropriations Received	✓	✓
Other Budget Activity	06/2012	03/2014
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Defense Security Cooperation Agency (DSCA)

### Overview

- DSCA synchronizes global security cooperation programs, funding, and efforts across OSD, Joint Staff, State Department, COCOMS, the Services, and U.S. Industry. DSCA is responsible for the effective policy, processes, training, and financial management necessary to execute security cooperation within the DoD.
- A challenge for DSCA are multiple field offices both CONUS and OCONUS, which will require coordination and performance of FIAR activities across all locations.

### Strategy Summary

- DSCA is evaluating the need for contractor support to include funding issues and contractor start-up costs. The contractor support would be used to perform FIAR activities for all assessable units.
- DSCA will work the Discovery phase of the assessable units concurrently and plans on spending a limited amount of time in discovery and evaluation in order to rapidly move to corrective actions, using the evaluating corrective action period adjustment to allow for additional testing, if needed.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	03/2014
Civilian Pay	06/2012	03/2014
Reimbursable Work Orders	06/2012	03/2014
Fund Balance with Treasury	06/2012	03/2014
Appropriations Received	✓	06/2012
Other Budget Authority	06/2012	03/2014
Financial Reporting	06/2012	03/2014
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Defense Threat Reduction Agency (DTRA)

### Overview

- Combat support agency for countering weapons of mass destruction.
- Identified assessable and sub-assessable units for all SBR significant process areas.
- Challenged with obtaining process and internal control documentation from service providers and obtaining sub-allotment holder transaction-level data. Approximately 2 percent of DTRA funding is sub-allotted to other agencies.
- DTRA implemented DAI in October 2011. DAI substantially altered the agency's treasury, disbursement, and related accounting functions. The Discovery data and related analysis was based upon former CAFRMS legacy system data and procedures. DTRA will update its Discovery submission to incorporate legacy analysis information and the impact of adopting DAI when sufficient ERP data is available (anticipated after Quarter 4 of FY 2012).

### Strategy Summary

- Working audit readiness for all assessable units concurrently rather than consecutively. Established separate teams to work the individual assessable units.
- Developing test plans for each sub-assessable unit and functional activities to conduct tests of internal controls, to include locating supporting documentation. Testing for the assessable units Contract Pay and Reimbursable Grantor and Acceptor will include verification of invoices and MIPRs for accuracy, timeliness, and authorized approvals.
- Will continue to work with DFAS and sub-allotment holders to obtain transaction-level supporting documentation.
- Developing MOUs to establish processes and dates for the service providers to submit documentation addressing internal control analyses and status of corrective action plans. Ensuring standard reconciliation processes are in place to support key supporting documentation testing and sustainment.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	06/2012	03/2014
Vendor Pay	06/2012	03/2014
Civilian Pay	06/2012	03/2014
Reimbursable Work Orders – Grantor	06/2012	03/2014
Reimbursable Work Orders – Acceptor	06/2012	03/2014
Fund Balance with Treasury	06/2012	03/2014
Appropriations Received – Wave 1	✓	06/2012
Appropriations Received – Wave 2	06/2012	03/2014
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Defense Contract Management Agency (DCMA)

### Overview

- Provides contract administration services to the DoD Acquisition Community and its partners to ensure delivery of quality products and services to the warfighter.
- Appropriations Received assertion (representing 91 percent of funding) was submitted in March 2012.
- Analyzed and prioritized the SBR assessable units based on a materiality analysis of obligations incurred.
- Challenges include staffing levels within DCMA's FM organization, testing across an organization with employees in over 700 locations (including OCONUS), relative lack of experience in FIAR, and use of a legacy accounting system.
- Systems issues include conversion to DAI concurrent with SBR examination. Processes that change will be updated during the pre-conversion efforts.

### Strategy Summary

- Leveraging narratives and updating process flows produced in 2008 to comply with DoD FIAR Guidance.
- Testing of Civilian Pay (represents 84 percent of obligations) began in April 2012. Focus is on timekeeping and personnel records.
- Discovery for Contract Pay/Vendor Pay (9 percent of obligations), TDY Travel, and Reimbursable Authority began in March 2012. Initial discovery of remaining assessable units began in April 2012.
- Will rely upon SSAE 16s for service provider processes and systems as they become available. In the interim, will rely on compensating controls and robust testing samples to ensure financial statements accurately represent source documentation.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	05/2012	02/2013
Vendor Pay	06/2012	03/2014
Civilian Pay	05/2012	07/2013
Reimbursable Authority	05/2012	02/2013
Fund Balance with Treasury	06/2012	03/2013
Appropriations Received	✓	✓
Other Budget Authority	05/2012	05/2013
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Defense Technical Information Center (DTIC)

### Overview

- Provides scientific and technical information, and delivers innovative discovery, collaboration, and analysis products and services to DoD users.
- Submitted Wave 1, Appropriations Received, on November 2011 for validation. Due to immateriality, assertion is not required.
- Updated process narratives, flowcharts, risk assessments, and control worksheets, and created test plans for Contract and Vendor Pay assessable units.
- Significant challenges include obtaining DAI data, such as object class codes, in a timely manner, limited resources to meet the June 2012 deadline for Discovery phase (testing), and reliance on other DoD entities to provide assurance over system controls.

### Strategy Summary

- Working audit readiness for all assessable units concurrently, rather than consecutively.
- Complete and finalize control process documentation, including testing and documenting risk analyses for all assessable units. Testing Contract Pay, Vendor Pay, and Reimbursable Authority will include verification of invoices, MIPRs for accuracy, timeliness, and authorized approvals.
- Obtain documentation for agency systems, including ERPs.
- Obtaining service provider documentation addressing internal control analyses and status of corrective action plans. Ensuring processes are in place to support key supporting documentation testing and sustainment.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	✓	06/2012
Vendor Pay	✓	06/2012
Civilian Pay	06/2012	12/2012
Reimbursable Work Orders – Grantor	06/2012	02/2013
Reimbursable Work Orders – Acceptor	06/2012	02/2013
Fund Balance with Treasury	06/2012	03/2013
Appropriations Received	✓	✓
Financial Reporting	06/2012	08/2013
<b>SBR Assertion</b>	<b>06/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Defense Logistics Agency (DLA) – General Fund

### Overview

- DoD’s largest logistics combat support agency, providing worldwide logistics support in both peacetime and wartime to the Military Services, as well as several civilian agencies and foreign countries.
- Established Enterprise Business Cycle structure in 2007 to assess business processes using an audit-like approach from initiation through reporting financial results. Established DLA-wide standards and criteria in 2009 that outline capabilities needed to achieve audit readiness.
- Assessed civilian pay laws, regulations, and policies, and updated process documentation for new time and attendance system.
- DLA is one of many DoD entities with funding included within the Defense-Wide Treasury Index 97 appropriation. DLA is working with DFAS and OUSD(C) to ensure completeness of DLA financial reports.

### Strategy Summary

- Using Enterprise Business Cycles structure, developing plan to meet milestone dates of all assessable units for FY 2014 and FY 2017.
- Validating location of civilian pay evidential matter, retrieval capabilities, and retention requirements.
- FBWT strategy ensures assertion of the complete cycle in FY 2017. First, FBWT reconciliation in September 2012; next FBWT for General Funds in FY 2014, and finally, the complete FBWT cycle.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Contract Pay	10/2012	03/2014
Vendor Pay	10/2012	03/2014
Civilian Pay	06/2012	03/2014
Reimbursable Work Orders – Grantor	10/2012	03/2014
Reimbursable Work Orders – Acceptor	08/2012	03/2014
Fund Balance with Treasury	03/2013	03/2014
Appropriations Received	✓	06/2012
Other Budgetary Activity	10/2012	03/2014
Financial Reporting	10/2012	03/2014
<b>SBR Assertion</b>	<b>10/2012</b>	<b>03/2014</b>



# Other Defense Organizations

## Military Retirement Fund (MRF) Payments

### Overview

- Assessable unit represents two Defense-Wide accounts established to receive annual payments from the Department of Treasury to pay the scheduled amount due for retirement benefits earned by military personnel for service prior to 1985.
- Department of Treasury warrants funds into these accounts from the General Fund of the Treasury. Funds are immediately transferred to the Military Retirement Trust Fund upon receipt. Fund Balance with Treasury is always zero after October of each year.
- OUSD(C)/FIAR completed an audit readiness assessment in September 2011 and determined these accounts are audit ready since 100 percent of the supporting documents were available and reconciled to the accounting records.

### Strategy Summary

- These payments will be included in the scope of work for independent audit of the Military Retirement Trust Fund in FY 2013.

### Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Appropriations Received	✓	✓
Financial Reporting	✓	✓
Other Budgetary Accounts	✓	✓
<b>SBR Assertion</b>	✓	✓





# Other Defense Organizations

## U.S. Special Operations Command (USSOCOM)

### Overview

- “Quick-win” assets (Naval Combatant Craft) existence and completeness assertion completed January 2012.
- Military equipment accounting converted from CAMS-ME to DPAS as of September 2010.
- Legacy Military Service accounting systems do not differentiate between expensed and capital assets, and therefore, do not calculate depreciation. Property accountability systems, such as DPAS, are used to track capital assets and associated depreciation.
- Manual processes to include reconciliations are used to properly capture amounts and journal vouchers are used to record the amounts in the accounting system of record for financial statements.

### Strategy Summary

- Identify and assert audit readiness for additional military equipment, such as Rotary and Fixed Wing Aircraft, Tactical Vehicles, and Sub-surface Equipment. Planning separate assertions by assessable unit by DoD Component.
- Ensure proper recording of real property based on pending DoD policy decision.
- Requested funding for contractor support for existence and completeness actions, such as developing test materials, site testing, gathering documentation, and preparing assertions.
- Working with service providers to establish roles and responsibilities in providing system documentation, testing, and other related support.

### Existence and Completeness Milestones

Assessable Units	Tested	Corrected
Military Equipment	12/2014	05/2015
General Equipment	12/2014	05/2015
Real Property	12/2014	05/2015
Operating Materials and Supplies	08/2016	06/2017



# Other Defense Organizations

## TRICARE Management Activity – Financial Operations Division (TMA-FOD)

### Overview

- TRICARE provides civilian health benefits for military personnel, military retirees, and their dependents, including some members of the Reserve Component.
- Preliminary site visits conducted to document processes, identify supporting documentation, and perform testing of supporting documentation.
- Coordinating with OUSD(AT&L) on the Defense Property Accountability System audit readiness requirements.

### Strategy Summary

- Review current operating expenditures to determine proper capitalization of Internal Use Software in accordance with federal accounting standards.
- Perform reconciliations of property records, fixed asset schedules, and inventory in property system.
- Identify universe of property and develop a testing methodology to align with assertion schedule in FY 2013.
- Perform reviews of supporting documentation, such as contracts, receiving reports, and transfer documents.
- Verify data attributes from supporting documentation for accuracy of property accountability, which also includes review of recorded dollar amounts associated with the financial management and budget data in the property records.

### Existence and Completeness Milestones

Assessable Units	Tested	Corrected
General Equipment	06/2012	09/2013



# Other Defense Organizations

## Defense Information Systems Agency (DISA) – General Fund

### Overview

- Engineers provide command and control capabilities and enterprise infrastructure to continuously operate and assure a global net-centric enterprise in direct support to joint warfighters, National-level leaders, and other mission and coalition partners across the full spectrum of operations.
- Completed assertion packages supporting DISA General Fund (GF) full financial statements as of September 30, 2007, submitted December 2007.
- In June 2010, an IPA completed independent validation of audit readiness of DISA GF full financial statements, as of September 30, 2009.
- DISA remediated findings resulting from independent validation; including findings associated with unsupported PP&E, account maintenance, and financial compilation.
- DISA GF planning for an audit of its FY 2012 financial statements.
- Lack of an ERP prohibits full compliance with FFMIA requirements and will result in noncompliance audit findings.

### Strategy Summary

- Share lessons learned from DISA audits with FIAR committees to raise awareness of “Corporate” issues.
- Support sustainment internally though internal control over financial reporting program.
- Validate audit readiness sustainment through annual independent audits.
- Aggressively pursue ERP solutions that will ensure compliance with FFMIA.

### Existence and Completeness Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
General Equipment	✓	✓



# Other Defense Organizations

## Defense Logistics Agency

### Overview

- General equipment policies and procedures are stable and meet standards. Existence and completeness status is on schedule.
- Real property host site surveys have been completed. Data collection and reconciliation efforts are in progress.
- Developed inventory sampling plan for DoD materiel held by DLA that verifies year end inventory quantities in support of the financial statements of DoD organizations who own the materiel. First execution of the plan completed September 30, 2011.
- Challenges to correcting deficiency in inventory in transit reporting include need to receive material receipt acknowledgements for deliveries when ownership transfers to the customer upon delivery.
- Continuing extension of real property capabilities in the DLA ERP to include posting to the financials. Solution anticipated in FY 2014/FY 2015.

### Strategy Summary

- Executing a comprehensive Real Property Condition Assessment Project. Physical surveys are 20 percent complete. Reconciliation of records with Army, Navy/Marine Corps, and Air Force are in process.
- Updating real property policies and procedures to incorporate findings from gap analysis and initial survey findings.
- Moving DLA Disposition Services business processes out of a legacy system and into the DLA ERP by deploying capabilities developed through the Reutilization Business Integration project. Target completion February 2013.
- Addressing DLA OIG audit recommendations to resolve automated inventory reconciliation discrepancies, submitted nine System Change Requests to correct systems deficiencies, and revised Inventory Records Management Policy gaps.

### Existence and Completeness Milestones

Assessable Units	Tested	Corrected
General Equipment	03/2013	03/2014
Real Property – DLA Hosted Sites	09/2013	04/2014
Real Property – Non-DLA Hosted Sites	06/2015	06/2016
Inventory	07/2012	09/2014



## Other Defense Organizations

### Washington Headquarters Services (WHS)

#### Overview

- Identified material assessable units, key controls, and key supporting documentation for Real Property and General Equipment assets.
- Established a working group to improve operational business processes for data quality, transaction processing, and property management. The outcome of these sessions will facilitate better accountability and financial reporting.

#### Strategy Summary

- Leverage outcomes from existing working group and task force meetings with WHS financial and operations community to meet audit readiness objectives and responsibilities. WHS Financial Management Directorate will begin evaluating the outcomes of these meetings as part of the discovery work for Real Property and General Equipment assets in April 2013.
- Utilize regularly held meetings with WHS financial and operational community to address overall audit readiness efforts, roles and responsibilities, audit readiness challenges, and identify solutions for achieving auditability.

#### Existence and Completeness Milestones

Assessable Units	Tested	Corrected
General Equipment	09/2013	06/2014
Real Property	09/2013	06/2014



# Other Defense Organizations

## Missile Defense Agency (MDA)

### Overview

- A research, development, and acquisition agency that develops, tests, and fields an integrated Ballistic Missile Defense System to protect the U.S., DoD forward deployed forces, and friends and allies from hostile ballistic missile attack.
- Asserted Military Equipment – Sensors existence and completeness assertion to OUSD(C) in Quarter 2 of FY 2012.
- Monitoring corrective action plans through formal coordination with OPRs for Property Accountability and GFP Accountability for Military Equipment, General Equipment, Operating Materiels and Supplies, and Real Property.
- Although MDA now reports its financial statements utilizing DAI, the system does not provide the full visibility of all documents at the transaction level that comprise a specific balance.
- MDA relies upon service providers to provide assurance over the processes and controls impacting MDA audit readiness.

### Strategy Summary

- Completed risk assessments for Military Equipment (Sensors and THAAD), General Equipment (Targets, Space Systems, THAAD, Test), Operating Materiels and Supplies (GMD), and Real Property (MDA)
- Test Plan Design completed for all assessable units. MDA is conducting Test Design activities on a concurrent basis.
- Revising narratives and flowcharts based on test results to address the material weakness reported in the Statement of Assurance, which is a lack of standard processes/controls, central oversight, or central location for support documentation for property accountability.
- Next major milestone is the completion of the corrective action plans for Property Accountability and Government Furnished Property by Quarter 3 of FY 2013.

### Existence and Completeness Milestones

Assessable Units	Tested	Corrected
Military Equipment	09/2014	09/2015
General Equipment	09/2014	09/2015
Operating Materials and Supplies	09/2014	09/2015
Real Property	09/2014	09/2015



## Other Defense Organizations

### DEFENSE AGENCIES INITIATIVE ENTERPRISE RESOURCE PLANNING SYSTEM

The Defense Agencies Initiative (DAI) is a DoD effort to modernize the Defense Agencies' financial management capabilities. DAI was approved by the Defense Business Systems Management Committee (DSBMC) and included in the DoD Enterprise Transition Plan.

The DAI objective is to achieve auditable Chief Financial Officer (CFO) compliant business environments with accurate, timely, authoritative financial data. The primary goal is to deploy a standardized system solution to improve financial management and comply with the Department's Business Enterprise Architecture including the Standard Financial Information Structure and Office of Federal Financial Management requirements.

The scope (functionality) of DAI implements a compliant business solution with common business processes and data standards for the following business functions:

- Procure to Pay
- Order to Fulfill
- Acquire to Retire
- Budget to Report
- Cost Accounting
- Grants Accounting
- Time and Attendance

The benefits of deploying DAI include:

- Eliminating financial management material weaknesses and deficiencies.
- Streamlining interagency accounting through common use of U.S. Standard General Ledger (USSGL) Chart of Accounts.
- Enhancing financial analysis and timely decision making – DAI provides real time access to accurate, timely and authoritative financial data.
- Reducing data reconciliation requirements and thereby allowing agencies to better utilize scarce resources to perform more value added activities.
- Improving financial management business processes by automating labor intensive manual tasks.

Currently, DAI has approximately 7,000 users, and there are seven agencies where DAI has been fully deployed. Ten agencies are using DAI for time and attendance. DAI will be deployed to five additional Defense Agencies by October 2012.



# Other Defense Organizations

## Defense Agency Initiative (DAI)

### Overview

- In support of audit readiness, DAI will continue to mature the General Fund and Working Capital Fund accounting in an Enterprise Global Model comprised of 6 business process areas: Procure to Pay, Order to Cash, Acquire to Retire, Budget to Report, Cost Accounting, and Time and Labor.
- By Full Deployment in October 2016, DAI's Enterprise Global Model also will include: Budget Formulation, Grants Financial Management, and Re-Sales Accounting.
- Typically, deploy to 4 – 5 Defense organizations per year.
- Challenges include data collection/conversion and cross functional user training.

### Program Cost

Program Cost by Appropriation	To Date (\$M)*	At Completion (\$M)**
RDT&E	\$190.2	\$355.6
Procurement	\$1.5	\$1.5
Operations and Maintenance	\$1.3	\$69.6
<b>Total</b>	<b>\$193.0</b>	<b>\$426.8</b>

Notes to Table:

\* Includes FY 2012

\*\* Projected amounts are based on the President's Budget for FY 2012 through FY 2016.

### Impact on Legacy Systems

Legacy System Environment	# of Systems
Legacy Systems Sunsetting to Date	N/A
Legacy Systems to Be Sunsetting	N/A
Legacy Systems Interfaced to Date	21
Legacy Systems to Be Interfaced	TBD

Note to Table: DAI is intended to replace ODO legacy systems, and the sunset or partial sunset of a system is a decision by the owning organization.

### Information Technology Controls

Controls	Tested	Completion
Security Management Controls	03/2013	10/2016
Access Controls	03/2013	10/2016
Configuration Management Controls	03/2013	10/2016
Segregation of Duties Controls	03/2013	10/2016
Contingency Planning Controls	03/2013	10/2016
Completeness Controls	03/2013	10/2016
Accuracy Controls	03/2013	10/2016
Validity Controls	03/2013	10/2016
Confidentiality Controls	03/2013	10/2016
Availability Controls	03/2013	10/2016



# Other Defense Organizations

## Defense Agency Initiative (DAI)

### Implementation Milestones and Audit Readiness Related Information

Milestones	Functions	Baseline	Completion	Percent of Total Budget Authority
Milestone A		01/2007	01/2007	0
Deployment	Deployed to Business Transformation Agency (BTA) as a pilot with several capabilities: Procure to Pay, Budget to Report, Cost Accounting, Order to Cash, Acquire to Retire; as well as Time and Labor*	10/2008	10/2008	9%
Deployment	Deployed to Defense Technology Information Center (DTIC) as a pilot with a maturation of these capabilities	10/2009	11/2009	12%
Milestone B		10/2010	10/2010	21%
Deployment	Deployed to Missile Defense Agency (MDA) and Uniform University of the Health Sciences (USU) with a further maturation of these capabilities	10/2010	10/2010	21%
Initial Operating Capability (IOC)	Includes maturation of the pilot Agencies' initial capabilities: Procure to Pay, Budget to Report, Cost Accounting, Order to Cash, Acquire to Retire; Time and Labor	10/2010	10/2010	21%
Deployment	Deploy to four Agencies with maturation of IOC capabilities and Agency requirements	10/2011	10/2011	32%
Deployment	Deploy to five Agencies with additional maturation of IOC capabilities and Agency requirements	10/2012	10/2012	45%
Milestone C/ Full Deployment Decision (FDD)		03/2013	03/2013	50%
Deployment	Deploy to five Agencies with additional maturation of IOC capabilities and Agency requirements	10/2013	10/2013	60%
Deployment	Deploy to six Agencies with additional maturation of IOC capabilities, completion of Working Capital Fund capabilities and Agency requirements	01/2014	01/2014	74%
Deployment	Deploy to three Agencies with some maturation of IOC capabilities, completion of Grants Financial Management, Re-Sales Accounting capabilities & Agency requirements	10/2015	10/2015	90%
Deployment	Deploy to seven Agencies with some maturation of IOC capabilities, completion of Budget Formulation capabilities and Agency requirements	10/2016	10/2016	100%
Full Deployment (FD)		10/2016	10/2016	100%

\* Agencies typically deploy DAI Time and Labor in July preceding deployment of full financials.

\*\* Deployment schedule as of March 2012.



## Other Defense Organizations

### ODO AUDIT READINESS RESOURCES

The ODOs have budgeted the appropriate level of resources to achieve the FIAR goals and priorities. The FIAR activities funded by the amounts in Figure V-4 include conducting audit readiness activities, hiring independent public accounting (IPA) firms to conduct validations and audits, and resolving financial system issues (i.e., achieving an audit ready systems environment).

**Audit Readiness** encompasses the resources for evaluation, discovery, and corrective actions of the ODOs and their service providers (e.g., DFAS) and includes documenting and modifying processes and controls, identifying internal control deficiencies through testing and remediation of deficiencies, and evaluating transaction-level evidential matter and ensuring it is readily available.

Resources for activities to test or verify audit readiness after completing corrective actions and preparation of management assertion packages are also included.

**Validations and Audits** include the resources for validations, examinations, and financial statement audits conducted by IPAs.

**Financial Systems** includes the resources for designing and achieving an audit ready systems environment, including deployment costs. It also includes the resources to make needed and cost-effective changes to legacy systems that will be part of the audit ready systems environment. Financial System resources include design, development, deployment, interfaces, data conversion and cleansing, independent verification and validation and testing, implementation of controls and control testing, and system and process documentation.

**Figure V-4. Other Defense Organizations FIAR Resources (\$ in Millions)**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Audit Readiness</b>	\$ 27	\$ 20	\$ 68	\$ 62	\$ 61	\$ 55	\$ 57	\$ 58
Process Review and Remediation	25	11	54	44	43	39	41	43
DFAS Audit Readiness Support	-	5	10	14	14	12	12	11
Internal Audit Costs	2	4	4	4	4	4	4	4
External Audit Costs	-	-	-	4	6	-	-	-
<b>Audit Readiness and Validations and Audits Subtotal</b>	\$ 27	\$ 20	\$ 68	\$ 66	\$ 67	\$ 55	\$ 57	\$ 58
<b>Financial Systems</b>								
Non-ERPs	\$ -	\$ -	\$ 11	\$ 11	\$ 11	\$ 10	\$ 10	\$ 10
ERPs	117	152	126	111	66	50	25	25
<b>Financial Systems Subtotal</b>	\$ 117	\$ 152	\$ 137	\$ 122	\$ 77	\$ 60	\$ 35	\$ 35
<b>Total Resources</b>	\$ 144	\$ 172	\$ 205	\$ 188	\$ 144	\$ 115	\$ 92	\$ 93



## Other Defense Organizations

### INTELLIGENCE COMMUNITY DEFENSE AGENCIES

The FY 2011 Intelligence Authorization Act required the Defense Intelligence Agencies (DIA, NGA, and NSA) to obtain an unqualified audit opinion on all financial statements by FY 2016. Because of the accelerated timeline, unique operational requirements, classification requirements, and congressional guidance unique to the IC Agencies, the DoD Deputy CFO defers to the Assistant Director of National Intelligence (ADNI) Chief Financial Officer to provide technical direction and guidance to the Intelligence Community (IC) Defense Agencies regarding to audit readiness. The IC Defense Agencies are following the IC Audit Readiness Strategy to achieve the FY 2016 clean audit opinion date for all financial statements.

The IC Audit Readiness Strategy is a systematic method to identify and resolve audit impediments, building on strong business processes and internal controls with supportable financial data. The IC Strategy's foundation is supported by an IC-wide governance structure engaging all levels of the IC component structure. The strategy provides a phased approach similar to the DoD FIAR Plan and demands leadership engagement across the IC to implement financial management improvements to drive change.

In accordance with congressional guidance, the Director of National Intelligence (DNI) obtained certifications from the Directors of the Defense Intelligence Agency (DIA), National Geospatial Intelligence Agency (NGA), and the National Security Agency (NSA) to achieve an unqualified opinion on their FY 2016 financial statements by an

Independent Public Auditor (IPA) and to assign the management priority, leadership, and resources necessary to obtain an unqualified audit opinion. The DNI has already received a practical plan with major milestones from each of these IC Defense Agencies and directed the Office of the Director, National Intelligence (ODNI) OIG to conduct an assessment of each of the plans, which currently is ongoing.

There are five phases included in the IC Audit Readiness Strategy. The Discovery and Correction Phase and Implement and Monitor phases focus on identifying and correcting deficiencies. The DIA, NGA, and NSA are transitioning from these first two phases to the Assessment and Audit/Attestation phases, which focus on validating the corrections required to produce auditable financial statements.

The NSA financial statements were audited in FY 2010 and received a disclaimer. The NSA submitted five assertion packages to the ODNI in preparation for its FY 2014 audit. Both DIA and NSA will assert audit readiness for Appropriations Received in FY 2012, as requested by the Department. Finally, the sustainment phase ensures adequate internal controls and account balances are maintained on an on-going basis.

The ODNI provides periodic updates to the DoD and Congress. In addition, the DIA, NGA, and NSA audit readiness status and progress are provided in the charts that follow. These charts provide an overview that describes each IC Defense Agency's status toward accomplishing the FY 2016 audit date, strategy to achieve audit readiness, and milestones that identify planned dates for completing testing, validation, corrective actions, and assertions.



## Other Defense Organizations

### Defense Intelligence Agency (DIA)

#### Overview

- Established the Financial Management Improvement and Audit Readiness Program Office in the Office of the Comptroller to manage all aspects of the agency initiative to reach and sustain an unqualified opinion.
- DIA is on track to assert audit readiness of Appropriation Received no later than June 30, 2012.

#### Strategy Summary

- Complete standup of the Audit Readiness Business Management Integrated Audit Teams (including senior executive representation) by April 30, 2012.
- Conduct an audit or assessment of FY 2014 financial statements to ensure major weaknesses are identified.
- DIA will utilize Integrated Audit Teams comprised of business process and business systems operations personnel, and contracted Subject Matter Experts to conduct discovery, implement corrective actions, and respond to the auditor's requirements.

#### Statement of Budgetary Resources Milestones

Assessable Units	Tested	Corrected
Payables	07/2013	09/2013
Reimbursable Work Orders - Grantor	07/2013	09/2013
Reimbursable Work Orders - Acceptor	02/2013	03/2013
Fund Balance with Treasury	02/2014	03/2014
Appropriations Received	03/2012	06/2012
<b>SBR Assertion</b>	<b>02/2014</b>	<b>03/2014</b>



## Other Defense Organizations

### Defense Intelligence Agency (DIA)

#### Overview

- DIA's PP&E audit readiness efforts will be completed in Quarter 1 of FY 2015.

#### Strategy Summary

- DIA's PP&E audit readiness efforts encompass all 5 of the financial statement assertions, including the DoD priority of existence and completeness.

#### Property, Plant, and Equipment Milestones

Assessable Units	Tested	Corrected
Property, Plant, and Equipment	11/2014	12/2014



# Other Defense Organizations

## National Geospatial Intelligence Agency (NGA)

### Overview

- Completed analysis of revised standard operating and desk guides, and achieved planned reconciliation targets.
- Using a comprehensive audit readiness Corrective Action Plan, submitted to Congress in February 2012, to manage and prioritize actions required to achieve audit readiness.

### Strategy Summary

- Using Internal Control over Financial Reporting (ICOFR) process and control evaluations, and substantive transaction testing through Quality Assurance Reviews to identify and correct deficiencies and implement enhanced business process controls.
- NGA is preparing to undergo an audit or auditability assessment of all financial statements by FY 2014.

### Statement of Budgetary Resources Milestones

Assessable Units	Tested	Corrected
Payables	10/2013	01/2014
Reimbursable Work Orders - Grantor	10/2013	01/2014
Reimbursable Work Orders - Acceptor	10/2013	01/2014
Fund Balance with Treasury	10/2013	01/2014
Appropriations Received	06/2012	06/2012
<b>SBR Assertion</b>	<b>10/2013</b>	<b>01/2014</b>



# Other Defense Organizations

## National Geospatial Intelligence Agency (NGA)

### Overview

- NGA's PP&E audit readiness efforts will be completed in Quarter 1 of FY 2014.

### Strategy Summary

- NGA's PP&E audit readiness efforts encompass all 5 of the financial statement assertions, including the DoD priority of existence and completeness.

### Property, Plant, and Equipment Milestones

Assessable Units	Tested	Corrected
Property, Plant, & Equipment	10/2013	10/2013



# Other Defense Organizations

## National Security Agency (NSA)

### Overview

- NSA's audit remediation effort is fully resourced.
- NSA submitted five assertion packages (Imputed Cost, Net Position, Salaries and Benefits, and a combined Appropriations Received and Information Technology, General and Application Control). The first three assertions have been validated as audit ready by ODNI. The ODNI is currently reviewing the last two assertions.

### Strategy Summary

- NSA audit readiness strategy involves assessing the end-to-end business processes, systems, and supporting documentation for 15 key financial events.
- NSA asserted that 24 percent of the financial events are ready for audit. NSA is conducting corrective actions on an additional 40 percent of the financial events.
- NSA is on schedule to complete all audit remediation activities by the end of FY 2013, allowing NSA to have an IPA complete an evaluation (mock audit) of FY 2014 financial statements, complete a FY 2015 Balance Sheet audit, and complete a full scope audit of the FY 2016 financial statements.

Statement of Budgetary Resources Milestones (✓ = Completed)

Assessable Units	Tested	Corrected
Payables	03/2013	06/2013
Reimbursable Work Orders - Grantor	09/2012	03/2013
Reimbursable Work Orders - Acceptor	09/2012	03/2013
Fund Balance with Treasury	10/2013	02/2014
Appropriations Received	✓	✓
<b>SBR Assertion</b>	<b>06/2013</b>	<b>03/2014</b>



## Other Defense Organizations

### National Security Agency (NSA)

#### Overview

- NSA's PP&E audit readiness efforts will be completed in Quarter 2 of FY 2015.

#### Strategy Summary

- NSA's PP&E audit readiness efforts encompass all 5 of the financial statement assertions, including the DoD priority of existence and completeness.

### Property, Plant, and Equipment Milestones

Assessable Units	Tested	Corrected
Property, Plant & Equipment (PP&E)	10/2014	02/2015



## VI. SERVICE PROVIDER AUDIT READINESS PLANS

### INTRODUCTION

This section describes the Department's service provider methodology to achieve audit readiness, as well as the Department's efforts to develop a common strategy by bringing together service providers and reporting entities to identify risks, develop common control objectives, and ensure controls are designed to meet those risks and are operating effectively.

Some Components function both as reporting entities and as service providers. Reporting entities are entities or funds with financial statements that are combined or consolidated for reporting in the DoD Agency-wide financial statements. Service providers are entities that provide services that impact the reporting entity's manual and/or automated processes used for financial reporting. The Department utilizes many service providers to improve efficiency and standardize business operations.

This section also provides the status and plans of the key DoD service providers, which include:

- Defense Civilian Personnel Advisory Service (DCPAS)
- Defense Contract Management Agency (DCMA)
- Defense Finance and Accounting Service (DFAS)
- Defense Information Systems Agency (DISA)
- Defense Logistics Agency (DLA)

As the FIAR Strategy is executed, the Department may identify additional service providers that will be required to follow the DoD FIAR Guidance and perform the necessary tasks, develop work

products to demonstrate audit readiness, and support the reporting entities that rely on their services.

These service providers perform a variety of accounting, personnel, logistics, system development, or operations/hosting support. A description of the services each provides and their status and plans in supporting their Component customers is provided within the subsections for each of the following assessable units:

- Civilian Pay
- Military Pay
- Contract Pay
- Disbursing
- DoD-wide Computing Services

Using Civilian Pay as an example, Figure VI-1 illustrates how a service provider is responsible for performing a portion of the manual and automated processes for a reporting entity's end-to-end process. The Civilian Pay process includes transactions, processes, systems, controls, and documentation within both the reporting entity and service provider. The controls may be manual or automated, and documentation may reside with either entity. Transactions may be initiated by the reporting entity or service provider. Therefore, both organizations must be able to provide supporting documentation to demonstrate that controls are properly designed and operating effectively and transactions are properly recorded.

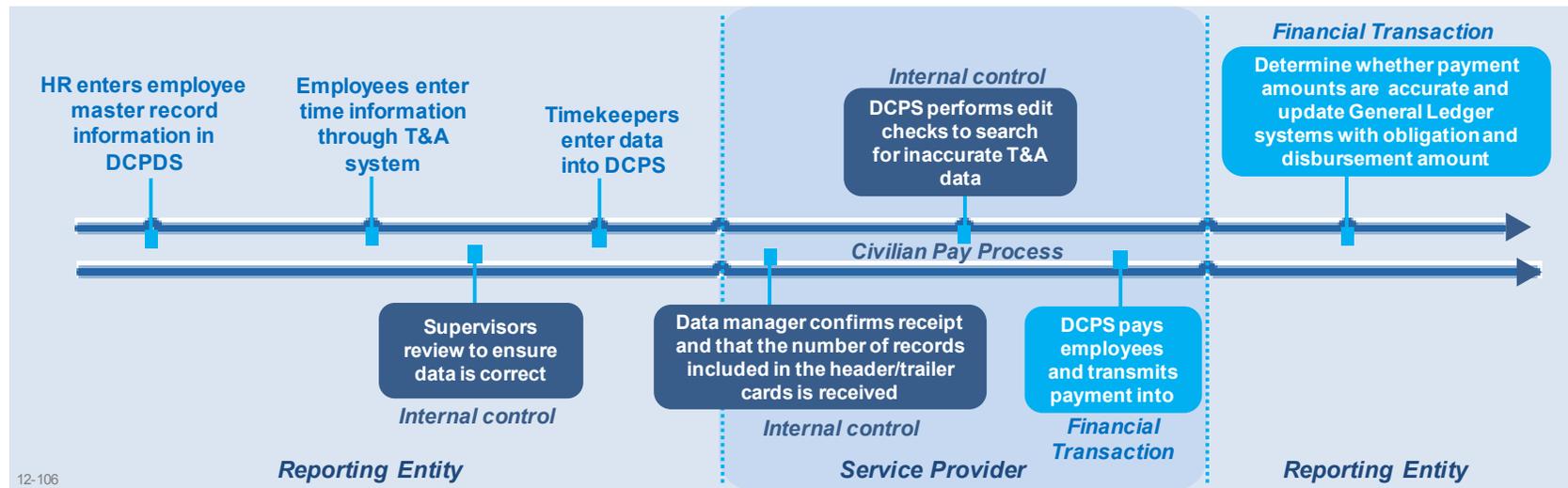
### FIAR STRATEGY FOR SERVICE PROVIDERS

Similar to the reporting entities' focus on obtaining an unqualified audit opinion on their financial statements, service providers are working to obtain unqualified opinions on their controls over operations. Examinations for service organizations are conducted in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization,



# Service Provider Audit Readiness Plans

Figure VI-1 Civilian Pay Responsibility Segments



which is similar to an audit of the reporting entity’s financial statements.

SSAE 16 examinations are most efficient when the service provider has many customers, allowing the customer’s financial statement auditor to rely on just one SSAE 16 report. As a result, the FIAR Guidance requires a service provider to obtain SSAE 16 examinations if it has three or more customer reporting entities that are working to become audit ready. Service providers with three or more customer reporting entities should collaborate on audit readiness timelines to determine when to commence their SSAE 16 examinations.

## SERVICE PROVIDER INITIATIVES

Because the service providers and reporting entities are separate organizations within the Department, the OUSD(C)/FIAR Directorate takes an active role to ensure service providers and reporting entities

reach an understanding and document agreement about their respective roles in audit readiness.

The Service Provider Working Group, chaired by the FIAR Directorate, was established to support the execution of the FIAR Guidance. Service providers and reporting entities come together to identify risks, develop common control objectives, and ensure controls designed to meet those risks are operating effectively.

The working group also focuses on educating the service providers and reporting entities on their respective roles, along with identifying challenges to audit readiness and developing the means for resolving those challenges. The FIAR governance bodies monitor progress, through the use of metrics related to agreements between the service providers and reporting entities regarding their roles and responsibilities. Once agreement is reached, other metrics measure the development of a strategy and plan, as well as progress executing the plan.



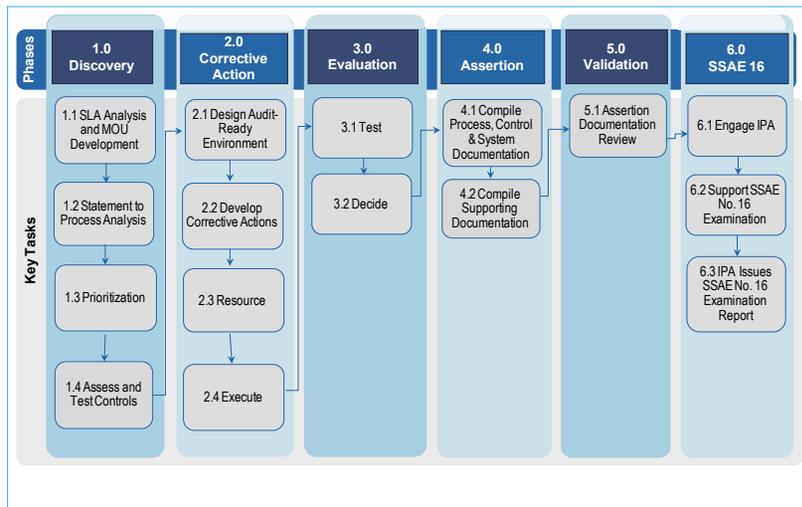
# Service Provider Audit Readiness Plans

The FIAR Directorate also is directly involved in the three most material Wave 2 (see Appendix 2) assessable units at an enterprise level. Specifically, for Civilian Pay, Military Pay, and Contract Pay, the FIAR Directorate is working with the respective service providers to develop process documentation, evaluate control objectives, and test control activities. Subsequent paragraphs discuss details about the methodology for reaching service provider audit readiness. There also is information on service provider and reporting entity roles in achieving audit readiness for Civilian Pay, Military Pay, Contract Pay, Disbursing, Financial Reporting, and DoD-Wide Computing Services.

## SERVICE PROVIDER FIAR METHODOLOGY

The FIAR Directorate developed an audit readiness methodology to implement the FIAR Strategy for service providers. This methodology, summarized in Figure VI-2, illustrates the key tasks and resulting work products the service providers must complete to demonstrate SSAE 16 examination readiness. The service provider methodology

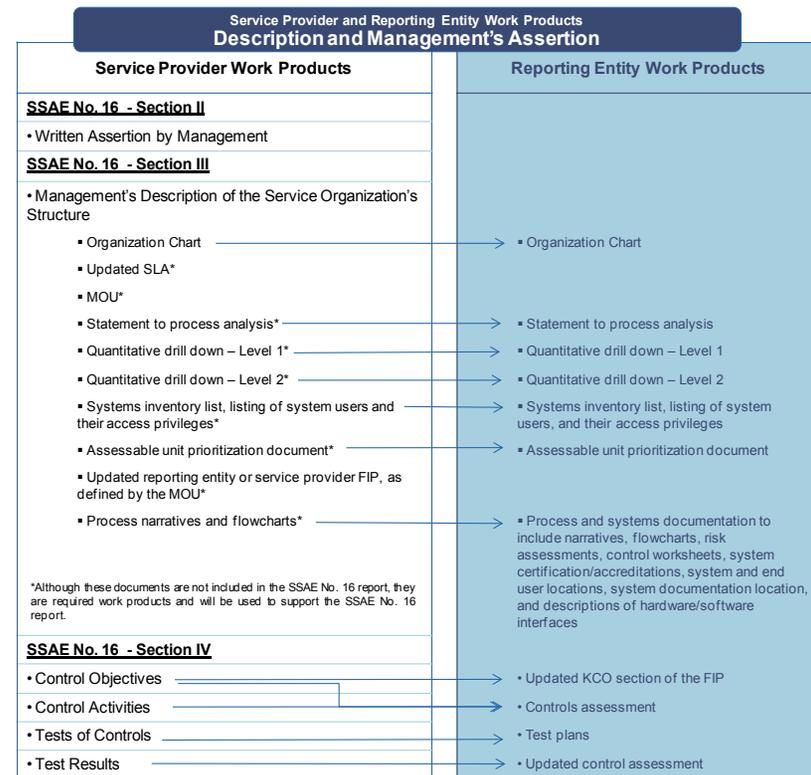
Figure VI-2 Service Provider FIAR Methodology



aligns with the FIAR Methodology (see Appendix 2 for further detail) used by the reporting entities to demonstrate audit readiness.

Figure VI-3 illustrates the service provider work products required by SSAE 16, as well as depicting how service provider work products align to support customer reporting entity work products. The service providers' work products will be incorporated into customer reporting entity assertion documents.

Figure VI-3 Service Provider Work Products – SSAE 16





## Service Provider Audit Readiness Plans

Consistent with the FIAR Strategy, the Department is focusing service provider audit readiness resources on the services that support Wave 2. The following sections identify the key DoD service providers by assessable unit, as well summarize their role in supporting the reporting entities.

### CIVILIAN PAY

The Civilian Pay assessable unit includes the processes, systems, controls, and documentation used to pay the Department's civilian employees. Civilian Pay begins with the hiring of Federal employees, includes personnel time and attendance during their employment, and ends with their separation from Federal employment.

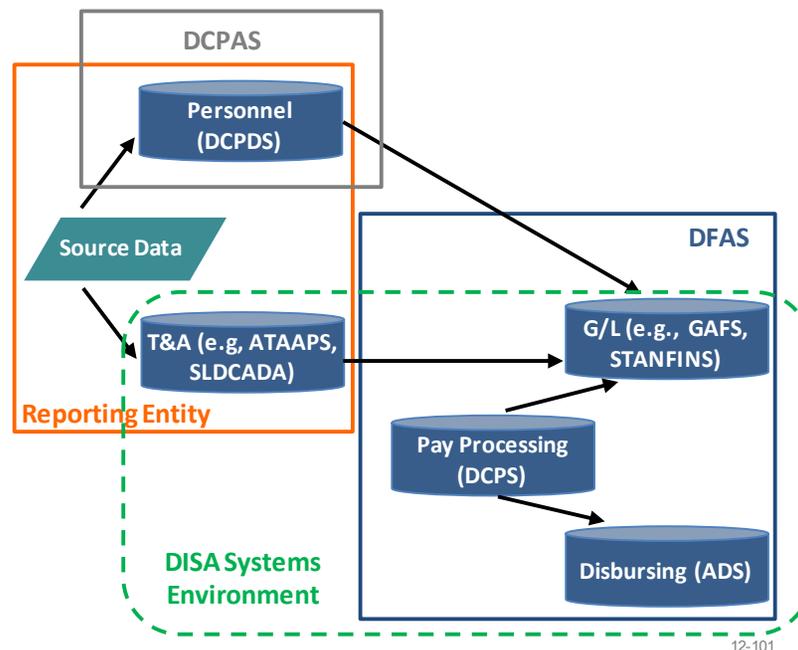
Figure VI-4 presents the Civilian Pay process and key common systems used by the reporting entities, from initiating source documents through recording the pay transactions in the general ledger. The square boxes show which entity plays a role in the manual processes or owns the related system. The green dashed line identifies system hosting services addressed in the DoD-wide Computing Services section.

The Department uses service providers to ensure standardized and efficient processing of civilian pay. The most critical service providers and reporting entities in the civilian pay process are discussed in the following subsections.

#### Defense Civilian Personnel Advisory Service (DCPAS)

As shown in Figure VI-4, DCPAS maintains the Department's civilian personnel system, the Defense Civilian Personnel Data System (DCPDS), which is used to initiate, approve, and process personnel actions for civilian employees. Additionally, for most reporting entities other than the Military Services, DCPAS hosts the personnel system at a DCPAS-managed data center. Accordingly, reporting entities rely on DCPDS (including relevant system controls) to ensure the completeness, accuracy, validity, and restricted access to civilian personnel actions.

Figure VI-4 Civilian Pay Process



#### Defense Finance and Accounting Service (DFAS)

As shown in Figure VI-4, DFAS calculates bi-weekly civilian pay using personnel data obtained from DCPDS combined with time and attendance information provided by the reporting entities. In addition to calculating the bi-weekly payroll, DFAS disburses the bi-weekly pay for the reporting entities through direct deposit or check. The DFAS also records the bi-weekly pay accounting transactions in the general ledger for some reporting entities.

Because the services performed by DFAS represent a large portion of the Civilian Pay activity, the reporting entities rely on DFAS processes, systems, and controls for a large portion of its civilian payroll process. The DFAS has undergone a Statement on Auditing

# Service Provider Audit Readiness Plans



Standard No 70 (SAS 70) (predecessor to SSAE 16) examination over the payroll-processing portion of its civilian pay services that resulted in an unqualified opinion. The DFAS, currently undergoing an SSAE 16 examination, expanded the scope this year to include additional pay processing activities and additional elements related to disbursing.

## Reporting Entities

Accurate civilian pay calculations depend on information about each employee, including the employee's grade, step, location, number of deductions for calculating tax withholding, and many deductions including health insurance, life insurance, and Thrift Savings Plan

contributions. In addition, information about hours worked is necessary for calculating the employee's pay. This information is the responsibility of the reporting entities, and when such information is not accurate, the amount paid will not be accurate. Therefore, the responsibility for audit readiness is shared by the reporting entities and the service providers. As shown in Figure VI-4, the source data along with time and attendance information comes from the reporting entities.

The following quad-charts provide the status of DCPAS and DFAS audit readiness plans for Civilian Pay.

# Defense Civilian Personnel Advisory Service



## Civilian Pay

### Overview

- DCPAS develops and implements human resource management solutions that enable DoD customers to ensure the civilian workforce is ready and able to effectively support the Warfighter and the national security mission.
- Defense Civilian Personnel Data System: (DCPDS) is the DoD enterprise civilian human resources system of record managed by DCPAS for over 800,000 employees.
  - Bi-directional interface with the Defense Civilian Payroll System (DCPS).
  - System available 24/7 with HR transactional information access worldwide for HR specialists, employees, managers, and leaders.
  - DCPDS is one of six federal shared service centers.
  - Consolidated system operations for all Defense Agencies, with future to include Army, Navy, and Air Force to reach data center goals.
  - DCPAS has an enterprise plan for initial testing of core general and application controls for assessment of audit readiness.

### Strategy Summary

DCPAS ongoing and planned activity includes:

- General controls reviewed with only two focus areas pending and to be resolved through testing.
- Application controls are a shared responsibility between DCPAS and Component customers.
- Preliminary testing began in 2012.
- MOUs being drafted with each Component.
- Comprehensive testing to support audit readiness scheduled for October 2012.

### Milestones

Milestones	Completion
Scope and Timeline Defined and Communicated	05/2012
Memorandums of Understanding (MOUs)	08/2012
Controls Documented	06/2012
Controls Tested	10/2012
Corrective Actions	03/2013
Reporting Entity Assertion Support	06/2013
<b>Assertion</b>	<b>06/2013</b>

### Audit Readiness Outcomes

Outcomes	Completion
Civilian personnel actions are recorded accurately and are valid	03/2013
Material systems achieve the relevant FISCAM IT general and application-level control objectives	03/2013

# Defense Finance and Accounting Service



## Civilian Pay

### Overview

- Utilizing the DCPS, DFAS provides payroll services for approximately 1.2 million employees that include DoD, Department of Energy, Health and Human Services, and Veterans Administration.
- In FY 2011, DCPS received an unqualified opinion under SAS 70.
- DFAS hired an IPA to audit its civilian pay processes and systems using the new SSAE 16 for the reporting period of October 1, 2011, through June 30, 2012.
- The scope of the SSAE 16 includes enterprise-wide DFAS payroll processes and IT applications. To define the scope for the SSAE 16, DFAS:
  - Identified the civilian pay processes that affect the SBR.
  - Identified, documented, and tested the relevant key controls of the two material IT applications – DCPS processes payroll transactions and ADS processes disbursements.

### Strategy Summary

- Improve processes and controls, as needed, based on results of SSAE 16 examination. No significant findings to date based on completed planning and internal control phases of the SSAE 16 examination.
- Maintain Civilian Pay Service audit readiness and undergo annual SSAE 16 examinations.
- Civilian pay related processes such as accruals, field accounting, and financial reporting vary by Component and are not included in the scope of the SSAE 16.
- DFAS provides audit readiness support to each Component for these processes and controls in support of customer assertions. This includes testing payroll general ledger postings and reconciliations for Army, Navy, and Air Force in support of their civilian pay assertions.

### Milestones (✓ = Completed)

Milestones	Completion
Scope and Timeline Defined and Communicated	✓
Memorandums of Understanding (MOUs)	09/2012
Controls Documented	✓
Controls Tested	✓
Corrective Actions	✓
Reporting Entity Assertion Support	✓
<b>Assertion</b>	✓

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Completion
Civilian personnel actions are recorded accurately and are valid	✓
Civilian personnel actions are recorded timely	✓
Time and attendance information are recorded correctly and are valid	✓
Payroll is calculated and processed accurately	✓
Payroll obligations, expenses, accruals, and disbursements are valid and recorded accurately and in the correct amounts in the general ledger(s)	06/2014
Payroll obligations, expenses, accruals, and disbursements are recorded in the general ledger timely	06/2014
Stale obligations and accruals are removed from GL timely	06/2014
Material systems achieve the relevant FISCAM IT general and application-level control objectives	✓



# Service Provider Audit Readiness Plans

## MILITARY PAY

The Military Pay assessable unit includes the processes, systems, controls, and documentation used to pay the Department’s Soldiers, Sailors, and Airmen. Military Pay begins with the enlistment or commissioning of military personnel, includes personnel and related activity during their service, and ends with their separation from their Military Service.

Figure VI-5 presents the military pay process and key common systems used by the three Military Departments – from initiating source documents through recording of the pay activity in the general ledger. The square boxes show which entity plays a role in the manual processes or owns the related system. The green dashed line identifies system hosting services addressed in the DoD-wide Computing Services section.

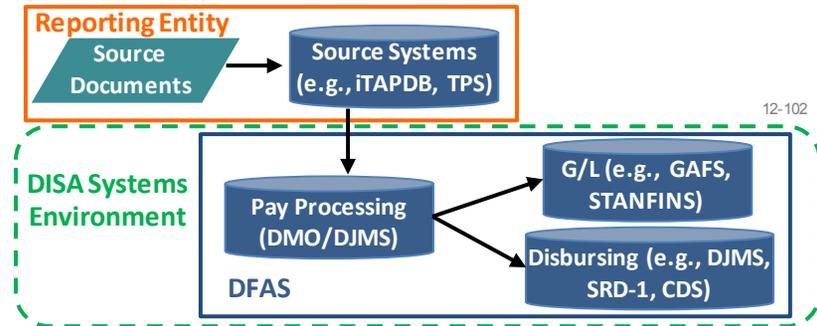
The Department uses service providers to ensure standardized and efficient processing of military pay. The most critical service providers and reporting entities for military pay are discussed in the following subsections.

### Defense Finance and Accounting Service (DFAS)

As shown in Figure VI-5, DFAS is responsible for processing bi-monthly military pay using personnel data obtained from the Military Service personnel systems. In addition to calculating the bi-monthly pay, DFAS also disburses the pay for military personnel through direct deposit or check. The DFAS also records the bi-monthly accounting transactions in most Military Department general ledgers.

The DFAS performs a large portion of the military pay activity. Therefore, the Military Services rely on DFAS processes, systems, and controls for a large portion of their military pay process. The DFAS initiated audit readiness activity with the goal of undergoing an SSAE 16 examination on its military pay services.

Figure VI-5 Military Pay Process



In addition to the actions of service providers, the Military Services are responsible for ensuring audit readiness of key portions of military pay.

### Reporting Entity

Military pay calculations are dependent on information provided by the Military Services about each military member, such as the member’s military grade, years of service, and entitlement(s) to any special pay, such as additional pay when serving in a war zone or for the member’s special skills. Additional information required includes the member’s withholding for taxes, life insurance, Thrift Savings Plan contributions, and other deductions. Although information about hours worked is not needed to calculate the member’s pay, leave information is required. The accuracy of the service member’s information is the reporting entity’s responsibility and directly affects the accuracy of the military pay payments. Accordingly, the responsibility for Military Pay audit readiness is shared by the Military Services and the service providers. As shown in Figure VI-5, the source data comes from the Military Services.

The following quad-chart provides the status of the DFAS audit readiness plans for Military Pay.

# Defense Finance and Accounting Service



## Military Pay

### Overview

- DFAS provides military pay to approximately 2.27 million Military Service members, active and reserve, to include processing of all pay affecting entitlement transactions, certification of all military payrolls, and accounting for, and disposition of, all authorized deductions from gross pay.
- Defense Joint Military Pay System-Active Component, Reserve Component (DJMS-AC/RC) and Defense Military Pay Office (DMO) are the enterprise military pay solutions for military pay processes.
- During FY 2012, DFAS began audit readiness activities to prepare for an SSAE 16 in FY 2013 of enterprise-wide DFAS processes. An active component military pay “mock” SSAE 16 audit was completed in March 2012.
- Completed an initial system assessment of the material IT applications, which include the DJMS-AC and DMO systems.

### Strategy Summary

- Finalize the Concept of Operations documents to define areas of responsibility related to audit documentation and auditability between DFAS and its customers.
- Develop and implement remediation actions that address segregation of duty, system access, and lack of supporting documentation findings identified in the mock SSAE 16 audit.
- Complete audit readiness discovery actions related to the Reserve Pay/Guard Component (RC).
- Complete and implement a process to reconcile gross pay (e.g., wages, deductions, taxes) to the general ledger for Army, Navy, and Air Force.
- Document and test manual and system controls (e.g., access, edit checks, interfaces) relevant to financial reporting for suitability of design and operating effectiveness.
- Formulate and implement processes that address open material audit findings related to reconciliations and supporting documentation.
- Address customer specific military pay related processes, such as accruals, field accounting, and financial reporting that vary by customer and are not included in the scope of the planned SSAE 16.

### Milestones (✓ = Completed)

Milestones	Completion
Scope and Timeline Defined and Communicated	✓
Memorandums of Understanding (MOUs)	09/2012
Controls Documented	✓
Controls Tested	05/2012
Corrective Actions	05/2012
Reporting Entity Assertion Support	06/2012
<b>Assertion</b>	<b>08/2012</b>

### Audit Readiness Outcomes (✓ = Completed)

Outcomes	Completion
Personnel information is recorded accurately and is valid	05/2012
Payroll is calculated and processed accurately	05/2012
Payroll obligations, expenses, accruals, and disbursements are recorded timely	06/2013
Payroll obligations, expenses, accruals, and disbursements are recorded at correct amounts in the general ledger(s) and are valid	06/2013
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year	06/2013
Material systems achieve the relevant FISCAM IT general and application-level control objectives	05/2012



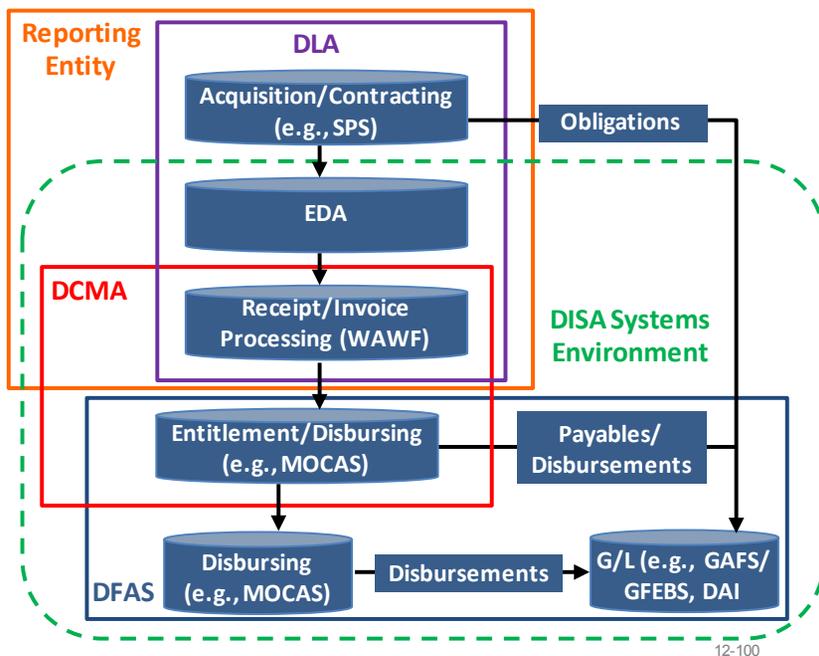
# Service Provider Audit Readiness Plans

## CONTRACT PAY

The Contract Pay assessable unit includes the processes, systems, controls, and documentation used to pay the Department’s contractors for goods and services. Contract Pay begins with the issuance of a contract and includes receipt of goods or services, payment of invoices, and ends with the close-out of the contracts.

Figure VI-6 presents the Contract Pay process and key common systems used by reporting entities from initiating source documents through recording of the contract and vendor pay activity in the general ledger. The square boxes show which entity plays a role in the manual processes or owns the related system. The green dashed line identifies system hosting services addressed in the DoD-wide Computing Services section.

Figure VI-6 Contract Pay Process



The Department uses service providers to ensure standardized and efficient processing of Contract Pay. The most significant service providers and reporting entities for Contract Pay are DCMA, DFAS, and DLA, as discussed in the following subsections.

### Defense Contracts Management Agency (DCMA)

As shown in Figure VI-6, DCMA, in coordination with DFAS, maintains one of the Department’s contract management systems used to manage the largest contracts from inception to closeout. Accordingly, reporting entities rely on this system, including relevant system controls, to ensure the completeness, accuracy, validity, and restricted access to prevent unauthorized recording of information on contract management activity. In addition to maintaining Department systems, DCMA monitors contractor performance and business systems to ensure that cost, product performance, and delivery schedules comply with the terms and conditions of the contracts.

### Defense Finance and Accounting Service (DFAS)

As shown in Figure VI-6, DFAS is responsible for the entitlement and disbursement of contract payments for the reporting entities and, for some reporting entities, DFAS records the contract pay accounting transactions in the general ledgers. Accordingly, reporting entities rely on DFAS entitlement and disbursement processes and systems, including the relevant system controls, to help ensure the completeness, accuracy, validity, and restricted access for contract disbursements and accounting.

### Defense Logistics Agency (DLA)

As shown in Figure VI-6, DLA maintains some of the Department’s contract writing and invoice or receipt processing systems used to initiate, approve, and process contracts and invoices. Accordingly, reporting entities rely on these systems, including their relevant system controls, to help ensure the completeness, accuracy, validity, and restricted access for contracts and invoicing and receipt activity.

# Service Provider Audit Readiness Plans



## Reporting Entity

As is the case with Civilian Pay and Military Pay, the reporting entity shares responsibility with the service providers for correct contract payments. Reporting entity responsibilities begin with ensuring the appropriate contract and accounting data is recorded in the contract writing system. Additionally, contract and vendor payments require reporting entities to perform a three-way match before being disbursed, that is, verify that the invoice, receiving report, and contract terms are in agreement. Figure VI-6 shows that the reporting entity is responsible for each of these documents.

The following quad-charts provide the status of the DCMA, DFAS, and DLA audit readiness plans for Contract Pay.

# Defense Contract Management Agency



## Contract Pay

### Overview

- DCMA provides the full range of post-award contract management services to the Department. The agency scope of work covers approximately 19,715 contractors with 341,500 contracts, valued at \$4.6 trillion.
- DCMA ensures the timely delivery of quality products and services within cost to its customers, payment of contractors, and timely closeout of contracts. The agency also administers contracts that are not paid in the Mechanization of Contract Administration System (MOCAS).
- The agency established a FIAR Executive Steering Group (ESG), which is a governance board comprised of agency senior leadership. The ESG provides strategic direction and oversight of the execution for the agency’s dual roles as service provider and reporting entity.
- Identified the assessable units in Contract Pay where DCMA is involved, and they will be evaluated during the Discovery phase of the FIAR process.

### Strategy Summary

- Began the Discovery phase with identification of the following financial transaction “touch points” that are considered in scope: Receive and Obligate, Validate Funding, Accept Products and Services, Manage Contract Financing, Termination Settlement, Funds Reconciliation, and De-obligate Excess/Remaining Funds.
- Initial focus will be to identify the risk areas and control points for the contract modifications subprocess. This is an overarching process that affects many of the identified touch points.
- Additional resources in the form of contract support will be engaged to assist in the documentation, which includes flowcharting, developing test plans, and testing.
- The membership of the ESG will be leveraged to evaluate existing policy documentation to determine milestones and goals for the Discovery phase.
- Established an MOU with DFAS on MOCAS. The MOU documents the roles and responsibilities of both parties for the system management of MOCAS (joint ownership), including both contract administration and financial functionality.

### Milestones

Milestones	Completion
Scope and Timeline Defined and Communicated	12/2012
Memorandums of Understanding (MOUs)	12/2012
Controls Documented	06/2012
Controls Tested	06/2012
Corrective Actions	05/2013
Reporting Entity Assertion Support	06/2013
<b>Assertion</b>	<b>06/2013</b>

### Audit Readiness Outcomes

Outcomes	Completion
Disbursements are recorded accurately and are valid	06/2013
Material systems achieve the relevant FISCAM IT general and application-level control objectives	06/2012

# Defense Finance and Accounting Service



## Contract Pay

### Overview

- Contract Pay includes contract obligations, delivery of goods/services, entitlement, payment, accounting, and contract closeout.
- MOCAS is the DoD major contract entitlement system paying complex, multi-year purchases, many of which are related to weapon systems.
- In FY 2011, MOCAS paid more than \$200 billion, which is a third of DFAS commercial payments.
- During FY 2012, DFAS began audit readiness activities to prepare for a SSAE 16 in FY 2013 of enterprise-wide DFAS processes and controls for contract input, entitlement, pre-validation, and payment.

### Strategy Summary

- Identify, document, remediate, and assess key controls, key control objectives, and risks of the contract pay processes related to financial reporting.
- Document and test manual and system controls, including general and application controls relevant to financial reporting to ensure the suitability of design and operating effectiveness.
- Analyze test results and implement corrective action plans where deficiencies are found.
- Contract pay related processes such as accruals, field accounting, and financial reporting vary by Component and are not included in the scope of the planned SSAE 16. DFAS is providing audit readiness assertion support to each Component for these processes and controls.

### Milestones (✓ = Completed)

Milestones	Completion
Scope and Timeline Defined and Communicated	✓
Memorandums of Understanding (MOUs)	09/2012
Controls Documented	✓
Controls Tested	05/2012
Corrective Actions	07/2012
Reporting Entity Assertion Support	09/2012
<b>Assertion</b>	<b>10/2012</b>

### Audit Readiness Outcomes

Outcomes	Completion
Obligations are recorded in the correct period and within 10 days of award (in MOCAS)	05/2012
Obligations are recorded accurately and are valid (in MOCAS)	05/2012
Accruals and/or payables are recorded in the correct period and within 10 days of receipt	09/2013
Accruals and/or payables are recorded accurately and are valid	09/2013
Disbursements are recorded in the correct period and within 10 days of payment	09/2013
Disbursements are recorded accurately and are valid (in MOCAS)	05/2012
Obligations and accruals are reviewed, and adjusted as necessary, at least three times per year	09/2013
Material systems achieve the relevant FISCAM IT general and application-level control objectives	05/2012



## Contract Pay

### Overview

- In FY 2011, management of many DoD enterprise business systems, including WAWF and EDA, transferred from the Business Transformation Agency to DLA. In this new role, DLA supports the Department as a service provider.
- Progress/completed actions:
  - Identified and prioritized DLA-owned DoD-wide systems that are material to Contract Pay. WAWF and EDA impact both the Contract Pay and Vendor Pay assessable units.
  - Created an internal Systems Audit Working Group to share best practices and increase collaboration within DLA system Program Management Offices (PMOs).
- Challenges and impediments:
  - Improve PMO understanding of FIAR requirements.
  - Assist the functional user community identify business application controls that affect audit readiness.

### Strategy Summary

- Assess IT general and application controls based on the DoD FIAR Guidance.
- Perform independent audit by DLA OIG to assess whether the systems achieve FISCAM controls.
  - Provide independent audit and oversight issues formal report and findings to each system.
  - Identify deficiencies and validate corrective actions as needed.
- DLA Information Operations will perform system audit readiness support.
  - Implement required system corrective actions and remediation.
  - Provide awareness education and training to system PMOs on how to achieve and maintain an audit-ready state.

### Milestones

Milestones	WAWF	EDA
Scope and Timeline Defined and Communicated	06/2012	09/2012
Memorandums of Understanding (MOUs)	09/2013	09/2013
Controls Documented	06/2012	09/2012
Controls Tested	03/2013	06/2013
Corrective Actions	09/2013	12/2013
Reporting Entity Assertion Support	03/2014	06/2014
<b>Assertion</b>	<b>05/2014</b>	<b>08/2014</b>

### Audit Readiness Outcomes

Outcomes	Completion
Material systems achieve the relevant FISCAM IT general and application-level control objectives	
• WAWF	03/2014
• EDA	06/2014



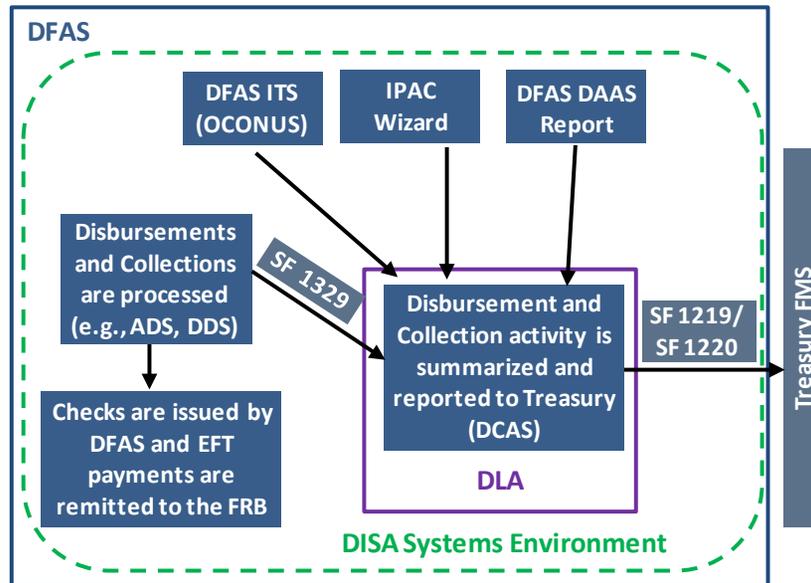
# Service Provider Audit Readiness Plans

## DISBURSING

Disbursing includes the processes, systems, controls, and documentation used to disburse DoD funds and report fund balances with the Department of the Treasury. After the entitlement systems send the certified payment file to disbursing systems, disbursing begins with processing the disbursement in the disbursing system, including summarizing activity in the Defense Cash Accountability System (DCAS), and ends with reporting to Treasury.

Figure VI-7 presents the disbursing process and key common systems used by reporting entities, from initiating source documents through recording of the disbursing activity in the general ledger. The square boxes show which entity plays a role in the manual processes or owns the related system. The green dashed line identifies system hosting services addressed in the DoD-wide Computing Services section.

Figure VI-7 Disbursing Process



12-103

The Department uses service providers to ensure standardized and efficient disbursing processes. The most significant service providers for disbursing are discussed in the following subsections.

### Defense Finance and Accounting Service (DFAS)

As shown in Figure VI-7, DFAS is responsible for processing disbursements for the reporting entities. The DFAS prepares and reports monthly fund balances to Treasury and issues checks and remits electronic fund transactions to the Federal Reserve Bank. In addition, DFAS records disbursement transactions in the general ledgers for some reporting entities. Accordingly, reporting entities rely on DFAS disbursement processes and systems, including the relevant system controls to help ensure the completeness, accuracy, validity, and restricted access for disbursements and accounting.

### Defense Logistics Agency (DLA)

As shown in Figure VI-7, DLA maintains DCAS, which is used to summarize and report disbursements and collections to Treasury. Accordingly, reporting entities rely on DLA to ensure the completeness, accuracy, validity, and restricted access for disbursing activity.

The following chart provides information on the status of DFAS audit readiness plans for disbursing.

# Defense Finance and Accounting Service



## Disbursing

### Overview

- DFAS processes approximately 60 percent of DoD disbursements using both the Standard Financial Information Structure (SFIS) and legacy accounting formats.
- Automated Disbursing System (ADS) is the enterprise disbursing solution for the DoD Standard Disbursing Initiative (SDI).
- During FY 2012, DFAS began audit readiness activities to prepare for an SSAE 16 in FY 2013 of enterprise-wide DFAS processes and controls for disbursing Military Pay, Civilian Pay, Retired Pay, and Vendor Pay, and ADS general and application controls.
- Procedural changes in the disbursing process (e.g., SDI and Treasury initiatives) may affect scope definitions as they evolve.

### Strategy Summary

- Identify, document, remediate, and assess key controls, key control objectives, and risks of the disbursing processes related to the daily Statement of Accountability.
- Document and test manual and system controls, including general and application controls relevant to financial reporting to ensure the suitability of design and operating effectiveness.
- Analyze test results and implement corrective action plans when deficiencies are found.
- Disbursing related processes, such as field accounting and financial reporting, vary by Component and are not included in the scope of the planned SSAE 16. DFAS provides audit readiness assertion support to each Component for these processes and controls.

### Milestones (✓ = Completed)

Milestones	Completion
Scope and Timeline Defined and Communicated	✓
Memorandums of Understanding (MOUs)	09/2012
Controls Documented	✓
Controls Tested	05/2012
Corrective Actions	05/2012
Reporting Entity Assertion Support	06/2012
<b>Assertion</b>	<b>08/2012</b>

### Audit Readiness Outcomes

Outcomes	Completion
Disbursements are recorded timely	12/2013
Disbursements are recorded accurately and are valid	12/2013
Material systems achieve the relevant FISCAM IT general and application-level control objectives	05/2012

# Service Provider Audit Readiness Plans



## DOD-WIDE COMPUTING SERVICES

### Defense Information Systems Agency (DISA)

The DISA provides application hosting services for the Department's service providers and the DoD Components. As a result, DISA is responsible for most of the Information Technology General Controls (ITGCs) over the computing environment in which many key financial, personnel, and logistics applications reside. In order for the service providers and Components to rely on the automated controls and documentation within these applications, it is essential that ITGCs be appropriately designed and operating effectively.

The DISA received a qualified opinion under a Statement on Auditing Standard No. 70 examination over the ITGCs at its Systems Management Centers, where it hosts applications for various service providers and the Components. The DISA implemented corrective actions to remediate the issues that resulted in the qualified opinion, and it currently is undergoing an SSAE 16 examination.

### Defense Logistics Agency (DLA)

As a service provider, DLA maintains and operates systems that support reporting entity assessable unit processes. These systems include DDRS-B, DDRS-AFS, and DCAS. Accordingly, DLA must ensure the automated controls and documentation for these applications support auditability and that ITGCs are appropriately designed and operating effectively.

The following charts provide the status of the DISA and DLA audit readiness plans for DoD-wide Computing Services.



## DoD-Wide Computing Services

### Overview

- DISA hosts computer applications for DoD service providers and reporting entities.
- Since 2005, DISA hosting services have had SAS 70/SSAE 16 audits annually that review general controls surrounding the hosted information systems.
- The FY 2011 SAS 70 resulted in a qualified opinion with issues noted regarding:
  - Privilege access misalignment
  - Challenges with change management
  - Logical access standardization
  - Insider threat
  - Audit log reviews

### Strategy Summary

- DISA is actively resolving the few remaining issues that cause qualifications to the SAS 70 audits, including:
  - Removed (resolved) privilege access members
  - Implement a change management system in Quarter 3 of FY 2013
  - Establish a standardized access request process in Quarter 4 of FY 2012
- Conduct annual SSAE 16 audits, including the one in progress for FY 2012.
- The FY 2012 SSAE 16 audit report will be issued in June 2012.

### Milestones (✓ = Completed)

Milestones	Completion
Scope and Timeline Defined and Communicated	✓
Memorandums of Understanding (MOUs)	✓
Controls Documented	✓
Controls Tested	✓
Corrective Actions	03/2013

### Audit Readiness Outcomes

Outcomes	Completion
Material systems achieve the relevant FISCAM IT general control objectives	✓



## DoD-Wide Computing Systems

### Overview

- In FY 2011, management of many DoD enterprise business systems transferred from the Business Transformation Agency to DLA. In this new role, DLA supports the Department as a service provider.
- Progress/completed actions:
  - Identified and prioritized DLA-owned, DoD-wide systems that are material to SBR assessable units.
  - Created a Systems Audit Working Group to share best practices and increase collaboration within DLA system PMOs.
- Challenges and impediments:
  - Improve PMO understanding of FIAR requirements.
  - Assist the functional user community identify business application controls that affect audit readiness.

### Strategy Summary

- Assess IT general and application controls based on the DoD FIAR Guidance.
- Perform independent audit with DLA OIG to assess whether the systems achieve the FISCAM controls.
  - Provide independent audit and oversight; issues formal report and findings to each system.
  - Identify deficiencies and validate corrective actions as needed.
- DLA Information Operations will perform system audit readiness support.
  - Implement required system corrective actions and remediation.
  - Provide awareness education and training to system PMOs on how to achieve and maintain an audit-ready state.

### Milestones

Milestones	Completion
Scope and Timeline Defined and Communicated	06/2012
Memorandums of Understanding (MOUs)	09/2013
Controls Documented	06/2012
Controls Tested	03/2013
Corrective Actions	09/2013
Reporting Entity Assertion Support	03/2014
<b>Assertion</b>	<b>05/2014</b>

### Audit Readiness Outcomes

Outcomes	Completion
Material systems achieve the relevant FISCAM IT general and application-level control objectives	
<ul style="list-style-type: none"> <li>• DAAS/GEX</li> </ul>	12/2013
<ul style="list-style-type: none"> <li>• DDRS, DCAS, DTS, DAI, EFD</li> </ul>	03/2014

# Service Provider Audit Readiness Plans

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## VII. OSD FIAR Oversight and Management

This section of the Report identifies and describes the important leadership and oversight role the Office of the Secretary of Defense (OSD) is providing to achieve and sustain financial improvement and effective controls, modernize business and financial systems, and prepare the Department for financial statement audits.

The Office of the Secretary of Defense consists of Principal Staff Assistants (PSAs) and their staff. The PSAs are OSD officials holding Presidential appointments, Assistants to the Secretary of Defense, and OSD Directors or equivalents who report directly to the Secretary or Deputy Secretary of Defense. The PSAs manage and oversee various aspects of the Department's efforts to achieve the FIAR goals and priorities, and their engagement and participation is stronger than ever.

### FIAR MANAGEMENT AND OVERSIGHT

The Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) is responsible for OSD-level, day-to-day management and oversight of the FIAR process and activity. The USD(C)/CFO has engaged the appropriate PSAs and other senior OSD officials in the Department's efforts to achieve auditability and meet the Secretary's directed changes to the FIAR goals, which include audit readiness of the General Fund SBR in FY 2014.

Since the PSAs are responsible for managing and overseeing the Defense Agencies and other Defense organizations, as well as overseeing the Components' functional communities, their participation is vital to success. The PSAs ensure:

- FIAR goals are included in appropriate Defense Agency senior executive performance plans.
- Defense Agencies and other Defense organizations achieve auditability and support customer audits needs.

In addition, senior representatives of the PSAs and other OSD offices are members of the FIAR Governance Board, and their staff participate as members or advisors to the FIAR Committee and FIAR Subcommittees. The roles and responsibilities of the FIAR Governance Board and FIAR committees are described in this section of the Report.

### Secretary of Defense and Other OSD Leaders

#### Secretary of Defense

During Secretary Panetta's confirmation hearing, he stated that it is unacceptable that the Department does not have auditable financial statements and that achieving auditability would be one of his priorities.

Shortly after taking office, Secretary Panetta issued the following DoD-wide message:

*"We must be accountable to the American people for what we spend, where we spend it, and with what result. While we have reasonable controls over much of our budgetary information, it is unacceptable to me that the Department of Defense cannot produce a financial statement that passes all financial audit standards. That will change. I have directed that this requirement be put in place as soon as possible. America deserves nothing less."*



The Secretary's message expressed his strong commitment to achieving auditable financial statements. In October 2011, the Secretary reinforced his message by directing the Department to accelerate key elements of the FIAR Plan and place greater emphasis

# Office of the Secretary of Defense (OSD)



on the overall effort (i.e., achieving the FIAR priorities and auditable financial statements).

Specifically, the Secretary called for the Department to:

- Achieve audit readiness of the General Fund SBR by the end of calendar year (CY) 2014.
- Increase emphasis on the accountability of assets.
- Execute a full review of the Department's financial controls over the next two years and establish interim goals to assess progress.
- Ensure mandatory training for audit and other key financial efforts and establish, by the end of CY 2012, a pilot certification program for financial managers that is similar to one now in place for acquisition managers.
- Appropriately resource efforts to meet these goals.
- Meet the legal requirements to achieve full audit readiness for all DoD financial statements by September 30, 2017.

The Secretary's commitment and involvement has elevated audit readiness to an "all hands," DoD-wide effort that has had a positive impact. For example,

- Warfighters, from flag officers to enlisted personnel, are more engaged and committed to audit readiness. Performance requirements for key uniformed personnel now include the achievement of FIAR goals.
- Appropriate political appointees and senior executives serving at OSD and in the Components are held accountable for achieving FIAR goals. FIAR goals have been incorporated in Senior Executive performance plans.
- Component FIPs conform more completely to the DoD FIAR Guidance and provide more detail of discovery and corrective actions.

- Acquisition Decision Memorandums, which provide approval of ERP milestones (e.g., Full Deployment), contain FIAR goals and requirements.
- Component commands are more actively involved.
- Adequate funds for audit readiness activities have been retained despite significant cuts in the Department budget.
- Participation in FIAR training courses has significantly increased.

## **Deputy Secretary of Defense/Chief Management Officer**

Secretary Panetta directed the Deputy Secretary of Defense, in his role as the Chief Management Officer (CMO), to conduct periodic reviews to ensure audit readiness in FY 2014 is achieved. The Deputy Secretary utilizes Defense Management Advisory Group (DMAG) meetings, where the Military Department CMOs present, commit to, and are held accountable for accomplishing specific FIAR near-term goals and milestones.

The DMAG meetings have been very effective in engaging senior leadership, developing achievable milestones, and identifying remediation plans when slippages occur, all of which significantly improves the likelihood of the Department meeting the General Fund SBR goal to begin audits by the end of CY 2014 and overall financial statement audit goal by September 30, 2017.

## **Under Secretary of Defense (Comptroller)/Chief Financial Officer**

As discussed above, the USD(C)/CFO and the OUSD(C) provide day-to-day FIAR management and oversight for the Secretary of Defense. The USD(C)/CFO and OUSD(C):

- Establish and coordinate the FIAR strategy, goals, and priorities with the Secretary and Deputy Secretary of Defense, as well as keeping them informed of progress, successes, challenges, and issues requiring their attention.

# Office of the Secretary of Defense (OSD)



- Inform Congress, Office of Management and Budget (OMB), and Government Accountability Office (GAO) regarding FIAR plans and progress, and respond to congressional requirements pertaining to audit readiness.
- Execute the FIAR governance process, which includes organizing and conducting FIAR Governance Board, FIAR Committee, FIAR Subcommittee, and other Defense organization Subcommittee meetings. (Information on the FIAR governance process is provided later in this section.)
- Develop, update, and maintain the FIAR Plan, DoD FIAR Guidance, FIAR training courses, and produce the semi-annual FIAR Plan Status Report.
- Monitor Component progress through metrics, FIP reviews, and participation in Component meetings and work efforts, as well as on-site visits to provide assistance.
- Review FIAR-related work products, to include critically important assertion packages.
- Provide FIAR staff and contractor assistance, when needed, depending on the availability of resources.
- Update accounting and finance regulations and policies to ensure conformance with federal accounting standards.
- Participate as a member of Investment Review Boards governing system modernization projects to ensure FIAR objectives and requirements are adequately addressed.

## **DoD Deputy Chief Management Officer (DoD DCMO)**

The DoD DCMO and the Office of the DCMO (ODCMO) play key roles in achieving audit readiness:

- The DCMO serves as the co-chair of the FIAR Governance Board.

- Ensures the DoD Strategic Management Plan (SMP) adequately incorporates and addresses audit readiness goals, and monitors SMP metrics.
- Monitors and oversees systems modernization and deployment of certain business ERPs, which includes approving key milestone decisions that impact audit readiness.
- Provides business process and information technology subject matter expert advice and assistance, and conducts technical reviews (such as compliance with SFIS) on systems modernization efforts that impact audit readiness.

## **Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L))**

The USD(AT&L) and the OUSD(AT&L) are critical to the achievement of audit readiness. The OUSD(AT&L) is responsible for acquisition, logistics, and property, plant and equipment regulations, policies, manuals, and oversight, which impact DoD business and logistics operations, and asset acquisition, utilization, maintenance, and disposal, all of which have a significant impact on audit readiness. The USD(AT&L) and OUSD(AT&L):

- Provide several senior representatives at FIAR Governance Board, FIAR Committee, and FIAR Subcommittee meetings.
- Serve as the Department's lead organization for overseeing and achieving the FIAR priority of existence and completeness of mission critical assets.
- Directly perform FIAR work (e.g., existence and completeness testing) for the Components on an as-needed basis, depending on availability of resources.
- Modify and update DoD acquisition, logistics, and property, plant and equipment regulations, policies, and manuals to incorporate FIAR requirements.

# Office of the Secretary of Defense (OSD)



- Reengineer business and financial processes needed to achieve auditability.

## Under Secretary of Defense (Personnel and Readiness) (USD(P&R))

The USD(P&R) and OUSD(P&R) play an important role in ensuring the Department achieves audit readiness in the areas of Military Pay and Civilian Pay, both of which have a significant impact on the auditability of the DoD financial statements due to the high dollar amounts and volume of transactions. The OUSD(P&R) ensures the Department’s medical communities and TRICARE organizations work effectively to achieve the audit priorities and overall auditability.

The OUSD(P&R) works closely with OUSD(C) in assessing the financial management workforce and reshaping it into the workforce needed to achieve and sustain audit readiness, and participates in the FIAR governance process.

## DoD Chief Information Officer (CIO)

The DoD CIO is the Department’s primary authority for the policy and oversight of information resources management, to include matters related to information technology, network defense, and network operations. The DoD CIO also exercises authority, direction, and control over the Director, DISA.

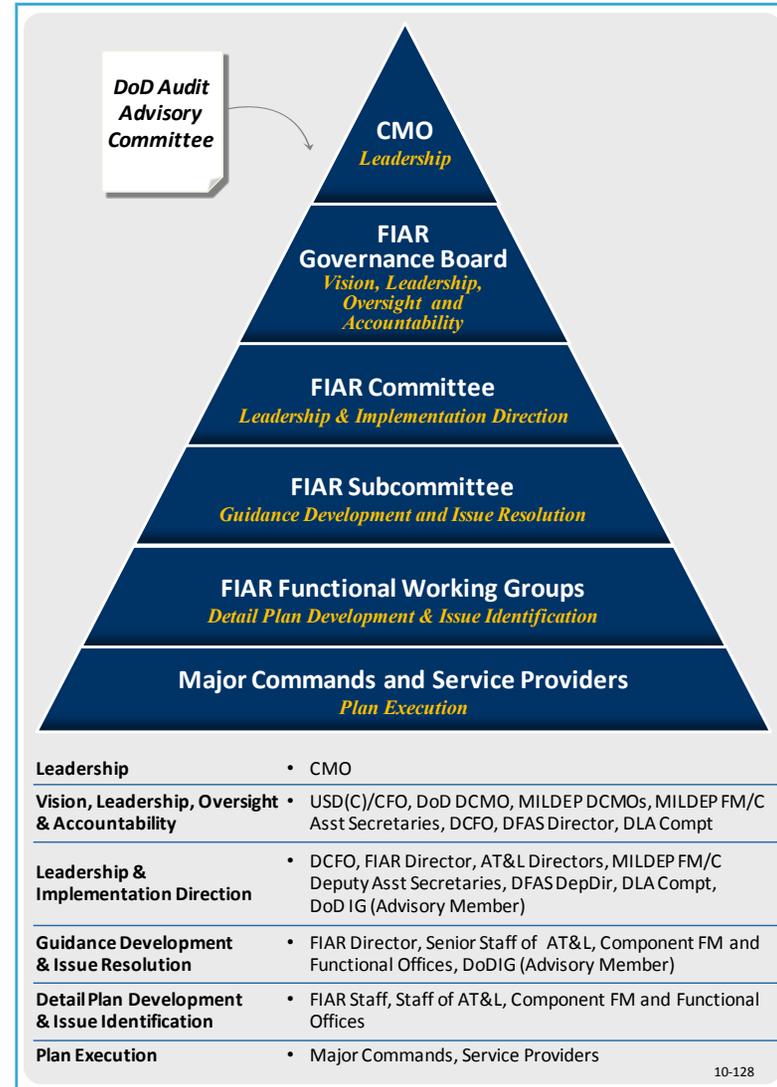
In support of audit readiness, the DoD CIO:

- Consolidates audit and system certification requirements.
- Includes audit requirements in policy associated with operating site certifications.

## FIAR Governance Structure

The Department established and OSD leads a FIAR governance structure that engages all key DoD stakeholders in the FIAR efforts. Figure VII-1 provides a graphical representation of the governance structure, the participants, and their roles.

Figure VII-1. FIAR Governance



# Office of the Secretary of Defense (OSD)



The USD(C)/CFO provides the vision, goals, and priorities of the FIAR Plan, which is coordinated with stakeholders within the Department (e.g., Military Departments) as well as outside the Department (OMB and Congress). The Deputy Secretary of Defense/Chief Management Officer (CMO) approves the FIAR Plan vision, goals, and priorities.

## FIAR Governance Board

Accountability for FIAR progress begins at the top and is a key role of the FIAR Governance Board, which is co-chaired by the USD(C)/CFO and DoD DCMO. The Board's governance role provides the Department with a visible leadership commitment, which is critical to achieving the FIAR goals.

The FIAR Governance Board engages the Department's most senior leaders from the financial management community along with the Military Department DCMOs, senior representatives from OUSD(AT&L), OUSD(P&R), DoD CIO, and others. The DCMOs have cross-community (business and financial) responsibilities and authority to transform budget, finance, and accounting operations and to eliminate or replace financial management systems that are inconsistent with transformation. The FIAR Governance Board meets quarterly and reviews Component progress.

## FIAR Committee and Subcommittees

The Department also looks to the FIAR Committee, which meets monthly, to oversee the management of the FIAR Plan. The FIAR Committee leads the implementation of the FIAR Plan priorities. Chaired by the Deputy Chief Financial Officer (DCFO), the Committee is comprised of executive-level representatives of OUSD(AT&L), OUSD(P&R), DoD CIO, the Military Departments, DLA, DFAS, and other Defense Agencies and organizations. The Deputy Inspector General for Auditing acts as an adviser to the FIAR Committee.

There are two active FIAR Subcommittees that assist OUSD(C) in developing detailed guidance and solutions to audit readiness issues:

- FIAR Subcommittee
- Other Defense Organizations (ODO) FIAR Subcommittee

The Subcommittees are comprised of senior accountants, financial managers, senior staff representatives from various offices of OSD (e.g., OUSD(AT&L)), and Certified Public Accountants from various private sector firms that support the OUSD(C) and Components. This collaborative management structure ensures the FIAR Plan is comprehensive with regard to DoD-wide organizations, issues, and solutions.

## FIAR Directorate and Functional Working Groups

To provide day-to-day management of the FIAR Plan and ensure DoD-wide financial and functional communities' improvement efforts are integrated, OUSD(C) established the FIAR Directorate as the PMO. The FIAR Directorate:

- Recommends strategic direction to the DCFO and USD(C)/CFO.
- Assists Components by evaluating FIAR plans, products, and deliverables, as well as providing subject matter experts to assist in Component FIAR activities.
- Develops and issues detailed financial improvement and audit preparation methodologies and guidance.
- Organizes and convenes cross-Component financial and functional working groups to address issues and develop solutions.
- Embeds experienced financial, accounting, and auditing personnel within the Component to develop, improve, and execute FIPs and provides training to Component personnel.
- Publishes the FIAR Plan Status Report semiannually.
- Updates and maintains the FIAR Planning Tool, used by Components to manage their FIPs.

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- On a monthly basis and with support from OUSD(AT&L), performs detailed reviews of Component FIPs and provides feedback to Components.
- Develops metrics for monitoring and reporting progress.

The Service Provider Working Group, chaired by the FIAR Directorate, meets monthly to address service provider issues and keep them informed of Component FIAR progress and activity.

## Major Commands and Service Providers

The Components' major commands and service providers, such as the Army Materiel Command and DFAS, execute the FIPs, perform the evaluation and discovery work, test and strengthen internal controls, and correct deficiencies. The business events that trigger financial transactions occur within the major commands where the functional and financial communities engage to achieve the vision, goals, and priorities of the FIAR Plan.

## DoD Audit Advisory Committee

The DoD Audit Advisory Committee was established under the provisions of the Federal Advisory Committee Act of 1972. This Committee, which is comprised of non-DoD employees, provides independent advice and recommendations to the Secretary of Defense, through the USD(C)/CFO, regarding DoD financial management, to include financial reporting processes, internal controls, audit processes, and processes for monitoring compliance with relevant laws and regulations. The Audit Advisory Committee is comprised of five members, all of whom are distinguished members of the audit, accounting, and financial communities.

## FIAR RISK MANAGEMENT

The Department has evaluated, identified, developed, and implemented actions to remediate six major risks to successful and effective achievement of audit readiness:

- Lack of DoD-wide Commitment
- Insufficient Accountability
- Poor Scope and Requirements
- Unqualified or Inexperienced Personnel
- Insufficient Funding
- Information System Control Weaknesses

The FIAR Governance Board monitors the Department's actions on a quarterly basis and directs action based on the risks and issues impacting audit readiness. Information explaining each of the risks and remediation actions is provided below.

## Lack of DoD-wide Commitment

Although the Department has been working for many years to achieve auditable financial statements, the responsibility to achieve this goal was predominantly identified as the financial community's initiative. This no longer is the case. Today, with the Secretary's commitment and involvement, stakeholders (warfighters, the functional and financial communities) throughout the Department now are responsible or committed to achieving the FIAR goals and are aggressively taking action to evaluate and document processes, improve controls and supporting documentation, and modernize systems.

Clearly, the Secretary's continued involvement in the FIAR process is the most significant activity that mitigates a lack of DoD-wide commitment. In addition, other DoD requirements and activities mitigate the risk of a lack of commitment to achieving audit readiness.

For example:

- The Department's SMP, which is closely monitored by senior officials within the Department and reported to the Congress, includes auditability as one its key initiatives.

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- Mandatory inclusion of FIAR goals in the performance plans of the appropriate senior executives and flag officers.
- Close monitoring of progress by Congress and the GAO.

## Insufficient Accountability

FIAR accountability begins at the top and cascades down to the Components. At the top, quarterly FIAR Governance Board meetings begin with status and progress reviews of near-term FIAR milestones, presented by each Component's senior executive who is held accountable for maintaining progress and achieving the near-term milestones. Given the complexity of the Department and long-standing impediments to auditability, some milestone slippage is inevitable. However, the accountable official must explain the cause of the delay and the actions being taken to remedy the problem(s). The Board's co-chairs and members, provide guidance, assistance, and/or direction, as needed. This process ensures and reinforces accountability at the top, which inevitably cascades down to the individuals who are responsible for day-to-day FIAR execution.

In addition, the Department now requires the appropriate senior executive and flag officer performance plans to contain FIAR goals, which holds them accountable and provides an additional incentive for progress. The requirement for including FIAR goals in the executive's performance plans is cascading down within the organizations to the working level individuals, who also are held accountable.

## Poor Scope and Requirements

As stated above, the Department has been working to achieve auditability for many years and, over those years, has approached the challenges to auditability utilizing different strategies and methodologies. Today, the scope and requirements to achieve audit readiness are well defined, consistent, documented, and communicated in the DoD FIAR Guidance, which has been issued across the Department and included in FIAR training courses. See Appendix 2 for detailed information on the FIAR Strategy and FIAR Methodology.

To fully mitigate the risk of inadequate scope or requirements, the FIAR Guidance is updated, as needed. The FIAR guidance, which was updated in December 2011, can be found on the Department's FIAR website at: <http://comptroller.defense.gov/FIAR/guidance.html>.

## Unqualified or Inexperienced Personnel

The lack of government personnel with the necessary qualifications and experience to achieve audit readiness has been a significant problem, existing not only at the working-level, but also in senior-level positions. As the Department works to achieve audit readiness, it recognizes that most individuals have never experienced the preparation for, or conduct of, a financial statement audit.

To mitigate this problem and significant risk to success, the Department is taking the following actions:

- Hiring experienced individuals who are Certified Public Accountants.
- Hiring IPA firms to help the Department prepare for audit.
- Providing FIAR training to the appropriate functional and financial employees.
- Modifying existing Military Department training and education programs to include FIAR objectives.
- Conducting limited-scope examinations and audits of portions of the financial statements that provide firsthand experience to prepare for and support an audit.

These actions are well underway and will have a positive impact on the Department's success in remediating this risk.

## Insufficient Funding

Achieving audit readiness in an entity with the size and complexity of the Department is very costly. Unfortunately, prior to this Administration, FIAR funding was not a priority and, therefore, was



underfunded. Today the Department has taken steps to ensure adequate funds are available to the Components for FIAR activity, despite significant Department-wide budget reductions.

To mitigate the risk of future underfunding, the USD(C)/CFO directed that FIAR funding be closely monitored, which included creation of a new Program Element specifically for FIAR funds within the Future Years Defense Program (FYDP) and annual budget process.

The total DoD FIAR funding by fiscal year is presented in the Executive Summary and in funding tables within the Army, Navy, and Air Force sections of this Report. As shown in these tables, FIAR funding is constant and will support the achievement of auditability in FY 2017.

## Information System Control Weaknesses

The ability of the Department's business and financial systems to record and report accurate and auditable financial information remains a challenging risk to achieving General Fund SBR audit readiness in FY 2014 and full audit readiness by September 30, 2017. Regardless of whether a Component is relying on a legacy system environment or a mixed environment of ERP and legacy systems, the effectiveness of application and general controls is critical to audit readiness.

This risk of weak system controls is exacerbated by the concurrent, ongoing extensive modernization of the Department's hundreds of business and financial systems in the Military Departments and most Defense Agencies. As systems are replaced or modernized, typically by an ERP, processes and controls change and, for the most part, impact financial reporting and audit readiness.

To mitigate this risk, the Department has taken the following actions:

- Engaged the DoD DCMO and the Military Department CMOs in the FIAR process.
- Required ERP deployment plans to be integrated with Component FIPs.

- Included specific FIAR requirements in Acquisition Decision Memorandums.
- Educated senior leadership and working-level personnel on the importance of effective information system control objectives, and, as part of the FIAR process, required the Components to test and correct system control weaknesses.
- Expanded the visibility of the ERP deployment progress in this Report (see the Army, Navy, and Air Force sections for detailed information).

The above actions are expected to mitigate some of the risk, but given the tremendous number of business and financial systems in the Department and the key role they play in recording and reporting auditable information, the Department will be closely monitoring and taking corrective actions, when needed.

## CHANGE MANAGEMENT AND COMMUNICATIONS

The need for a successful change management and communications plan has been heightened by the accelerated date by which the Department must achieve auditability of the SBR. Today, about 60,000 civilian and military financial managers are working to improve financial information and achieve audit readiness. Confidence in the overall FIAR strategy is high. However, attitudes and willingness to change vary widely.

The OSD FIAR Directorate launched a Change Management and Communications Plan (CMCP) that provides information to help the individuals responsible for audit readiness be successful. Through targeted, timely, and repeated messages, the FIAR CMCP builds support and minimizes resistance, and helps people develop the required knowledge and ability to implement change.

# Office of the Secretary of Defense (OSD)



## Audit Readiness as an All-Hands Effort

The goal of the FIAR CMCP is to make achieving auditability an all-hands effort. Three target audiences exist, each requiring a unique outreach and messaging approach:

- Financial and functional communities
- Commanders and leaders (O-5/GS-14 and above)
- DoD Military Service members and civilians

## Financial Management and Functional Communities

Awareness of audit readiness within the financial and functional communities is high. The FIAR CMCP emphasizes delivering best practices, lessons learned, tools, and information. The Office of the Deputy Chief Financial Officer distributes the Defense Audit Readiness News, a monthly e-newsletter. Additionally, a FIAR group has been established on milBook, a social networking site restricted to the .mil environment. The FIAR Group on milBook includes a blog, a discussion board, and a bulletin board for posting documents and presentations. Members of the financial and functional communities are being encouraged to join the FIAR Group as a means of sharing information with peers and giving them more immediate access to audit readiness news. When required, memoranda and directives are issued to notify these communities of policy changes or instructions.

## Commanders and Leaders (O-5/GS-14 and above)

Commanders and leaders are the Department's primary means of disseminating the all-hands message. Tools and resources that target commanders and leaders are being created to increase their level of awareness, help them understand the benefits of audit readiness, and help them communicate the need for audit readiness to those under their command. A Commander's Audit Readiness Checklist for preparing assessable business units for audit is being made available to the Military Services and distributed to other Defense organizations. Fact sheets, brochures, and other materials are planned.

## DoD Service Members and Civilians

To assist commanders and leaders disseminate the audit readiness message and to emphasize the importance of audit readiness to Military Service members and civilians, the Department is developing communication tools emphasizing the all-hands message. The OUSD(C) also visits sites to capture lessons learned and convey the Secretary's direction. For example, the OUSD(C) recently presented an audit readiness briefing to the Wing Commanders and their superior officers within Air Mobility Command at Scott Air Force. These site visits are summarized as blog postings and newsletter articles, and working with Public Affairs, follow-up articles are placed in Defense publications.

# Office of the Secretary of Defense (OSD)



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## VIII. Audit Readiness Progress Metrics

Monitoring DoD Component progress and holding them accountable is essential to the success and achievement of auditable Statements of Budgetary Resources (SBRs) by September 30, 2014, and full auditability by September 30, 2017. The FIAR governance process employs four types of metrics to monitor progress:

- Percentage of the SBR Validated as Audit Ready
- Percentage of Mission Critical Assets Validated as Audit Ready
- Key Control Objectives and Key Supporting Documentation
- Operational Improvements Impacting Budgetary Information and Mission Critical Asset Information

An explanation of each type of metric follows.

### Percentage of the SBR and Mission Critical Assets Validated as Audit Ready

The percentages of the total budgetary resources on the Department's SBR and mission critical assets that have been validated as audit ready provide overall, high-level measures of the Department's status and goals for achieving audit readiness. Information on Component-level validation for audit readiness is maintained and monitored internally within the Department.

### Key Control Objectives and Key Supporting Documentation

Key Control Objectives (KCO) and Key Supporting Documentation (KSD) metrics measure progress in achieving audit readiness by tracking the Components' assessment of KCOs and KSDs and determining their effectiveness. In other words, these metrics track progress in achieving the end-state outcome of auditability and a strong internal control program that ensures business and financial transactions are timely and accurately recorded and supported by transaction level documentation.

### Operational Improvements Impacting Budgetary Information and Mission Critical Asset Information

Operational Improvement metrics measure changes to business and financial operations that have a positive direct relationship to budgetary information in the SBR and to mission critical asset information. The metrics either measure outcomes of better budgeting and asset management information (e.g., Abnormal Fund Balances, Inventory Release Denial Rates) or measure process improvements needed to achieve better budgetary and mission critical asset information.

The above audit readiness progress metrics are provided separately in the remainder of this section of the Report.

## PERCENTAGE OF SBR VALIDATED AS AUDIT READY

Figure VIII-1 illustrates the audit readiness status and goals to be accomplished for the Department’s SBR, as well as auditability of the Department’s Appropriations Received on the SBR and the FBWT line on the Balance Sheet. As explained in the FIAR Strategy (Appendix 2), achieving FBWT audit readiness is essential to preparing for SBR audits.

The percentages reported in Figure VIII-1 are calculated based on total amounts reported in the Department’s FY 2009 financial statements. Information in the columns labeled FY 2009 through FY 2011 reflects the percentage validated as audit ready. Information in the columns labeled FY 2012 and FY 2013 report the Department’s goals.

By FY 2013, 100 percent of the Department’s Appropriations Received and 20 percent of the Total Budgetary Resources reported in the SBR, and 30 percent of the FBWT reported on the Balance Sheet, will be validated through IPA examinations as audit ready. The significant increase from FY 2009 to FY 2010 in SBR Appropriations Received resulted from the USMC SBR audit.

Figure VIII-1. SBR Priority Status and Interim Goals

Status/Goal	FY 2009 (Actual)	FY 2010 (Actual)	FY 2011 (Actual)	FY 2012 (Goal)	FY 2013 (Goal)
SBR Appropriations Received Audit Ready	19%	53%	80%	83%	100%
SBR Audit Ready	13%	14%	14%	14%	20%
FBWT Audit Ready	7%	8%	9%	9%	30%

## PERCENTAGE OF MISSION CRITICAL ASSETS VALIDATED AS AUDIT READY

Figure VIII-2 illustrates the Department’s mission critical asset existence and completeness audit readiness status and goals to be accomplished by the end of FY 2013. Information reported under FY 2009 through FY 2011 reflects the Department’s actual progress. Information reflected under FY 2012 and FY 2013 identifies the Department’s goals.

By the end of FY 2013, 42 percent of the Department’s mission critical assets will be validated through IPA examinations as audit ready. As of mid-FY 2012, 18 percent of mission critical assets have been validated, and the Department is on track to meet the FY 2012 goal of 40 percent. The remaining lines in the chart report actual progress and goals by category of mission critical asset (e.g., Real Property, Inventory).

The percentages are calculated based on the total asset dollar values reported in the Department’s FY 2009 financial statements.

Figure VIII-2. Mission Critical Asset Existence and Completeness Priority Status and Interim Goals

Status/Goal	FY 2009 (Actual)	FY 2010 (Actual)	FY 2011 (Actual)	FY 2012 (Goal)	FY 2013 (Goal)
Existence and Completeness Audit Ready	4%	4%	4%	40%	42%
Assessable Units					
Military Equipment	0%	0%	0%	36%	34%
Real Property	4%	4%	4%	4%	4%
Inventory	0%	0%	0%	0%	0%
Operating Materials and Supplies	0%	0%	0%	0%	4%
General Equipment	0%	0%	0%	0%	0%

## KEY CONTROL OBJECTIVES AND KEY SUPPORTING DOCUMENTATION

To achieve auditability, the Components must:

- Support account balances with sufficient control objectives and design, and implement control activities to limit the risk of material misstatements by meeting key control objectives (KCOs).
- Maintain competent audit evidence, key supporting documents (KSDs).

To maximize the efficiency and effectiveness of Component audit readiness efforts, the Department identified standard KCOs to mitigate financial reporting risks and KSDs that are required to substantiate transactions and balances.

The Components are identifying existing control activities to meet the KCOs, as well as assessing the quality and availability of support documentation requirements needed to assert audit readiness. The KCOs and KSDs are contained in the DoD FIAR Guidance located at <http://comptroller.defense.gov/FIAR/index.html>.

The KCO and KSD metrics are presented in Figures VIII-3 through VIII-14, by Military Service, to accomplish the FIAR priorities of:

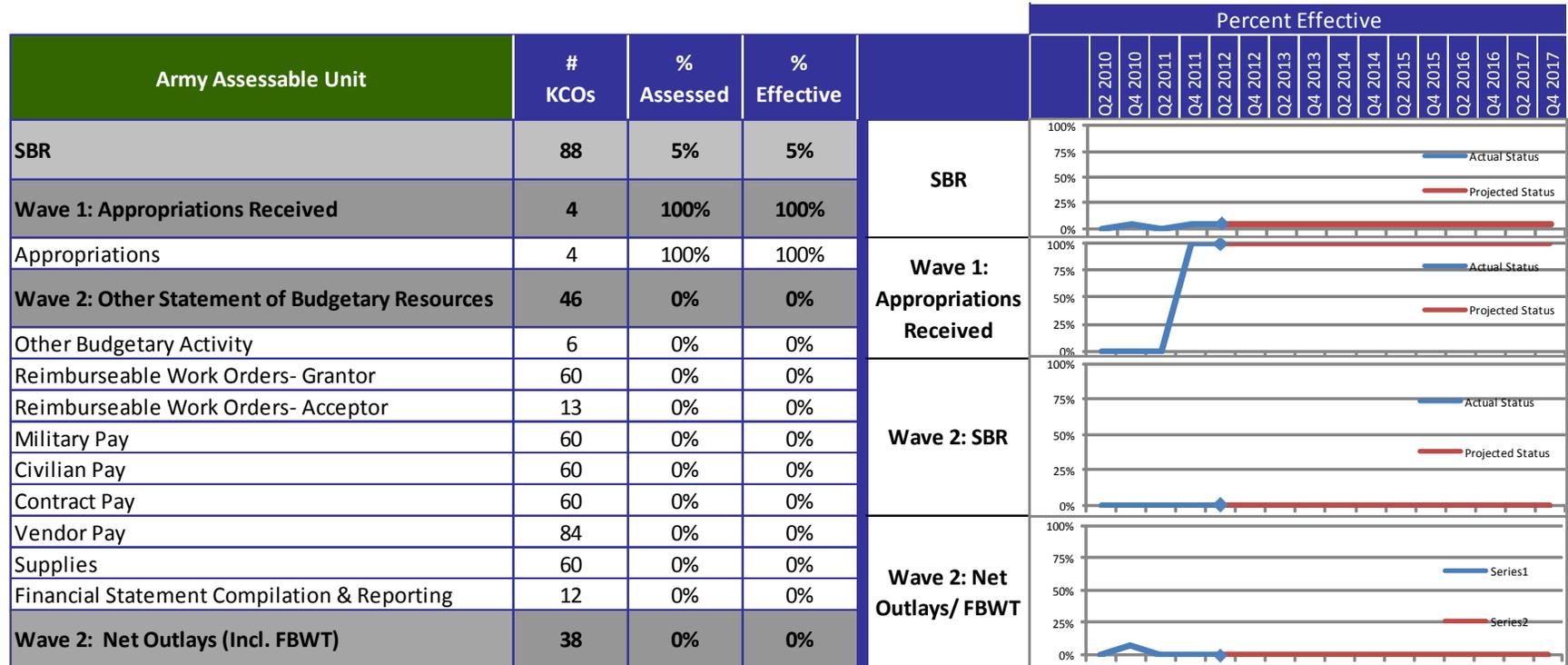
- Budgetary information
- Mission Critical Asset information



# Department of the Army



Figure VIII-3. Army SBR Key Control Objective (KCO) Status and Projections



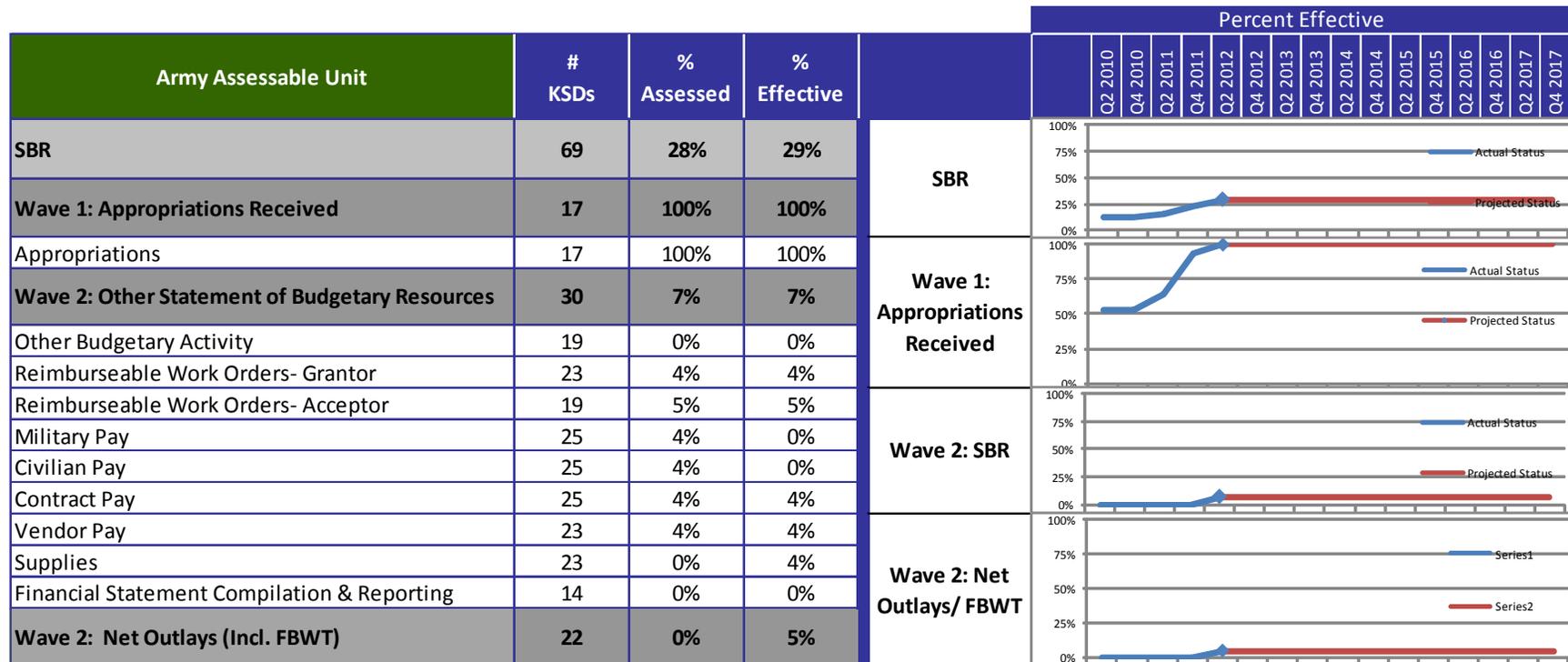
Note 1: Army is currently performing assessments for Wave 2 SBR and Wave 2 Net Outlays/FBWT. The projected effective status (red line) will increase when assessments are completed and projected effective dates are determined.



# Department of the Army



Figure VIII-4. Army SBR Key Supporting Document (KSD) Status and Projection



Note 1: In Wave 1 and Wave 2, there are 8 KSDs related to Internal Controls applicable to all assessable units. For purposes of metrics reporting, these are only counted once.

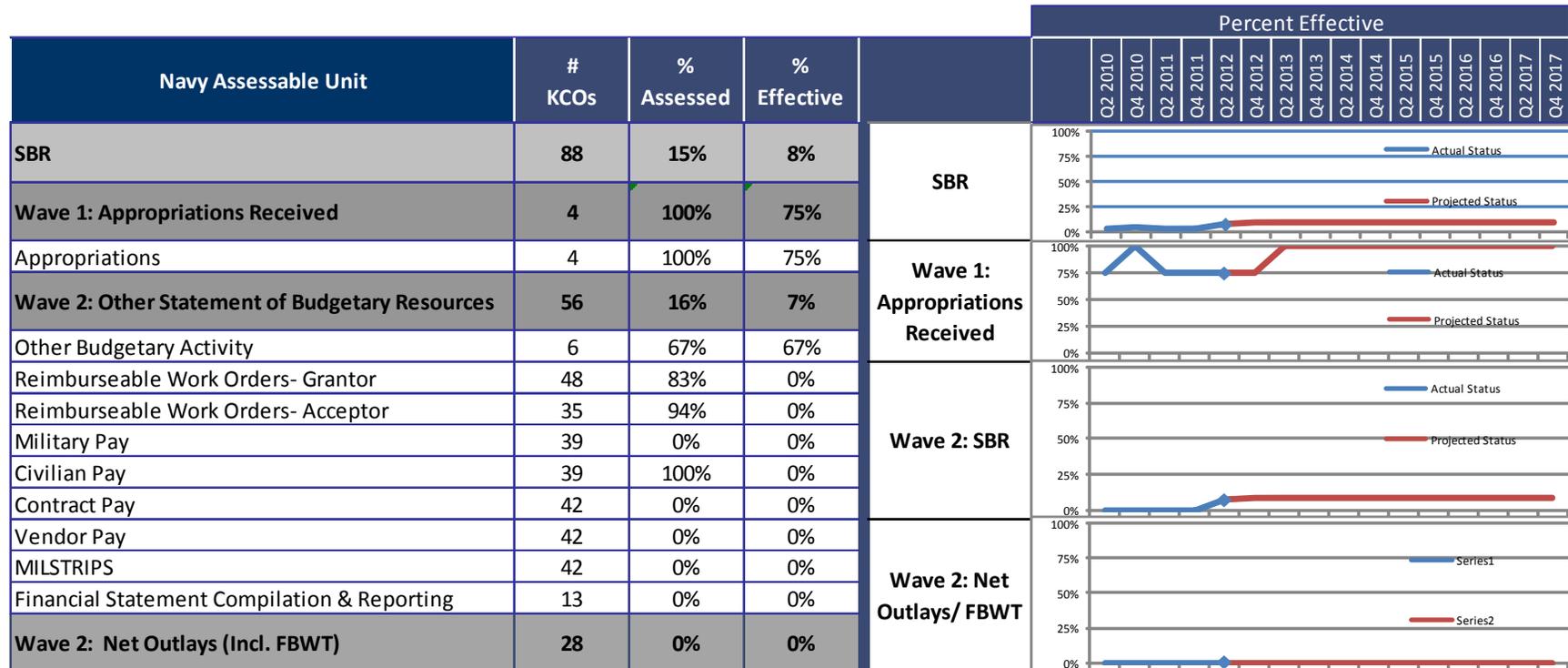
Note 2: Army is currently performing assessments for Wave 2 SBR and Wave 2 Net Outlays/FBWT. The projected effective status (red line) will increase when assessments are completed and projected effective dates are determined.



# Department of Navy



Figure VIII-5. DON SBR Key Control Objective (KCO) Status and Projections



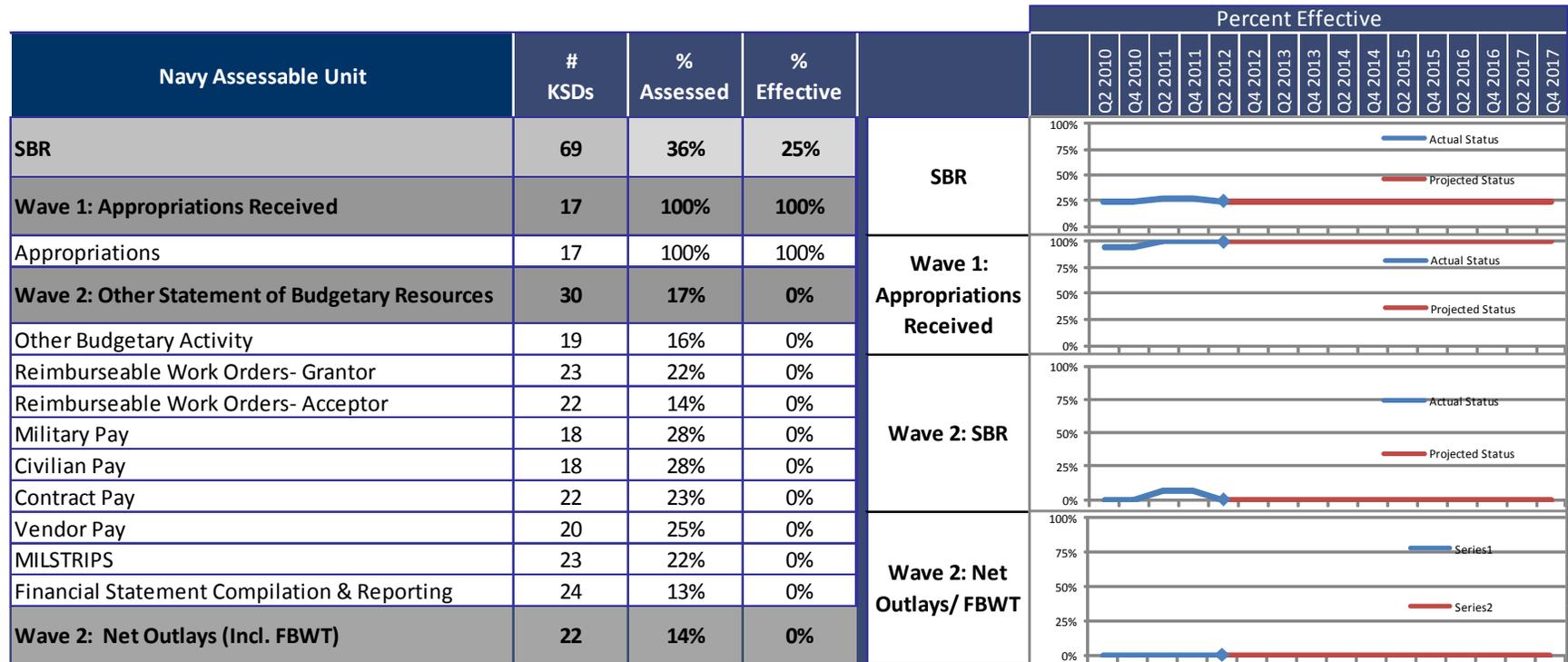
Note 1: Navy is currently performing assessments for Wave 2 SBR. The projected effective status will increase when assessments are completed and projected effective dates are determined.



# Department of Navy



Figure VIII-6. DON SBR Key Supporting Document (KSD) Status and Projections



Note 1: In Wave 1 and Wave 2, there are 8 KSDs related to Internal Controls applicable to all assessable units. For purposes of metrics reporting, these are only counted once.

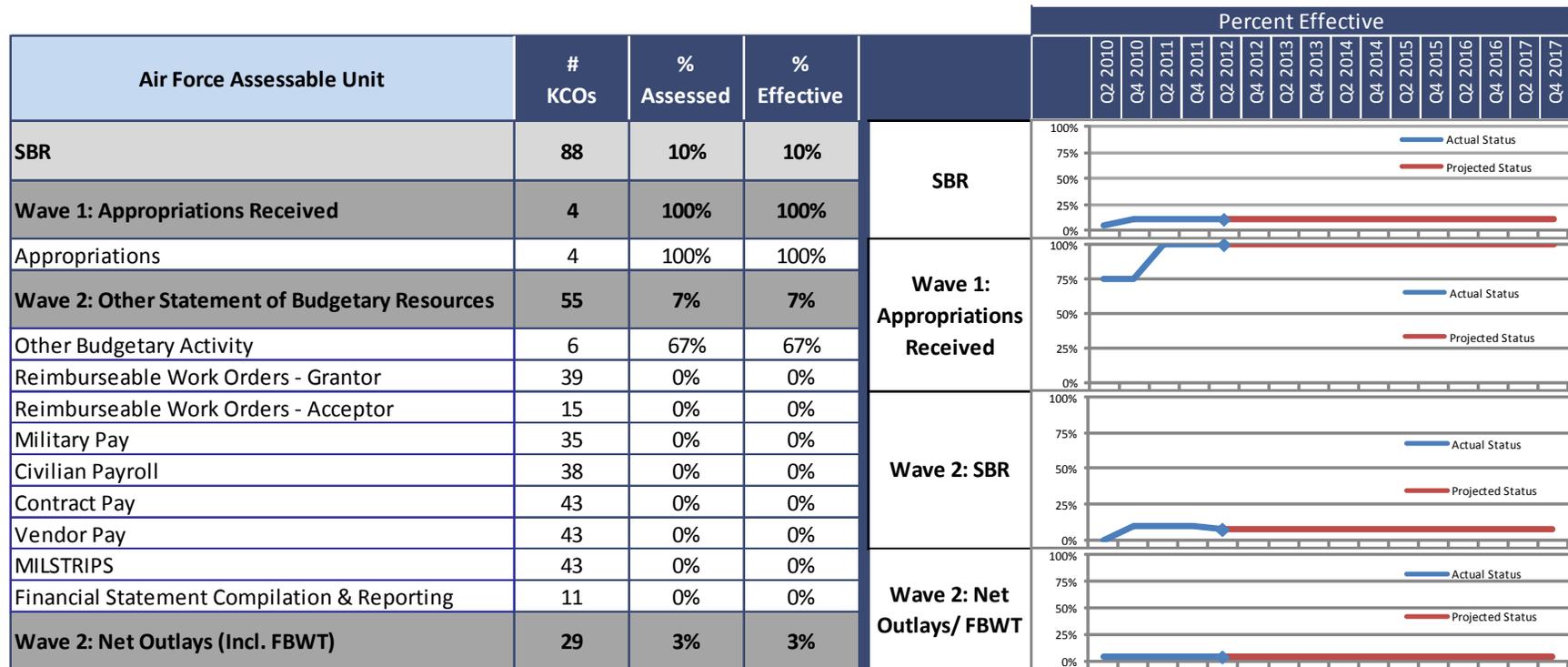
Note 2: Navy is currently performing assessments for Wave 2 SBR. The projected effective status will increase when assessments are completed and projected effective dates are determined.



# Department of Air Force



Figure VIII-7. Air Force SBR Key Control Objective (KCO) Status and Projections



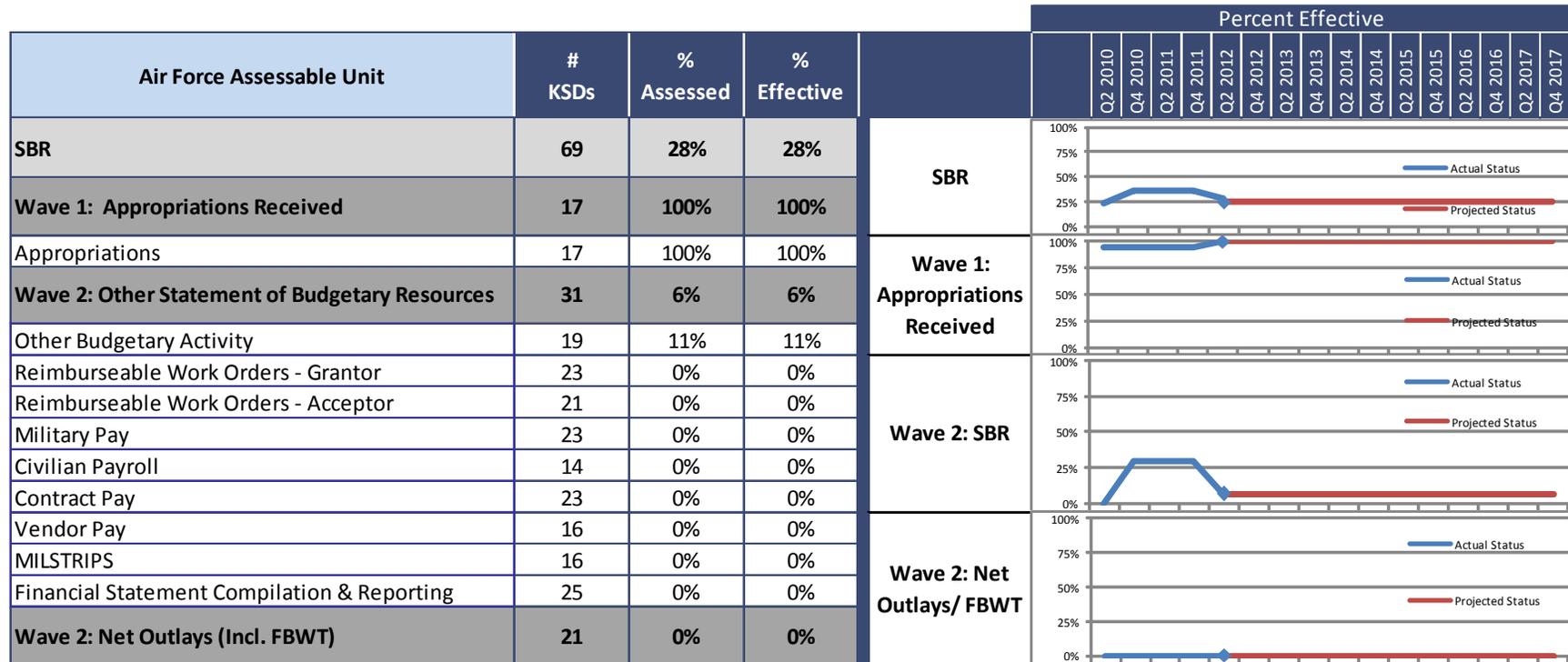
Air Force is currently performing assessments. The projected effective status (red line) will increase when assessments are completed and projected effective dates are determined.



# Department of Air Force



Figure VIII-8. Air Force SBR Key Supporting Document (KSD) Status and Projections



Note 1: In Wave 1 and Wave 2, there are 8 KSDs related to Internal Controls applicable to all assessable units. For purposes of metrics reporting, these are only counted once.

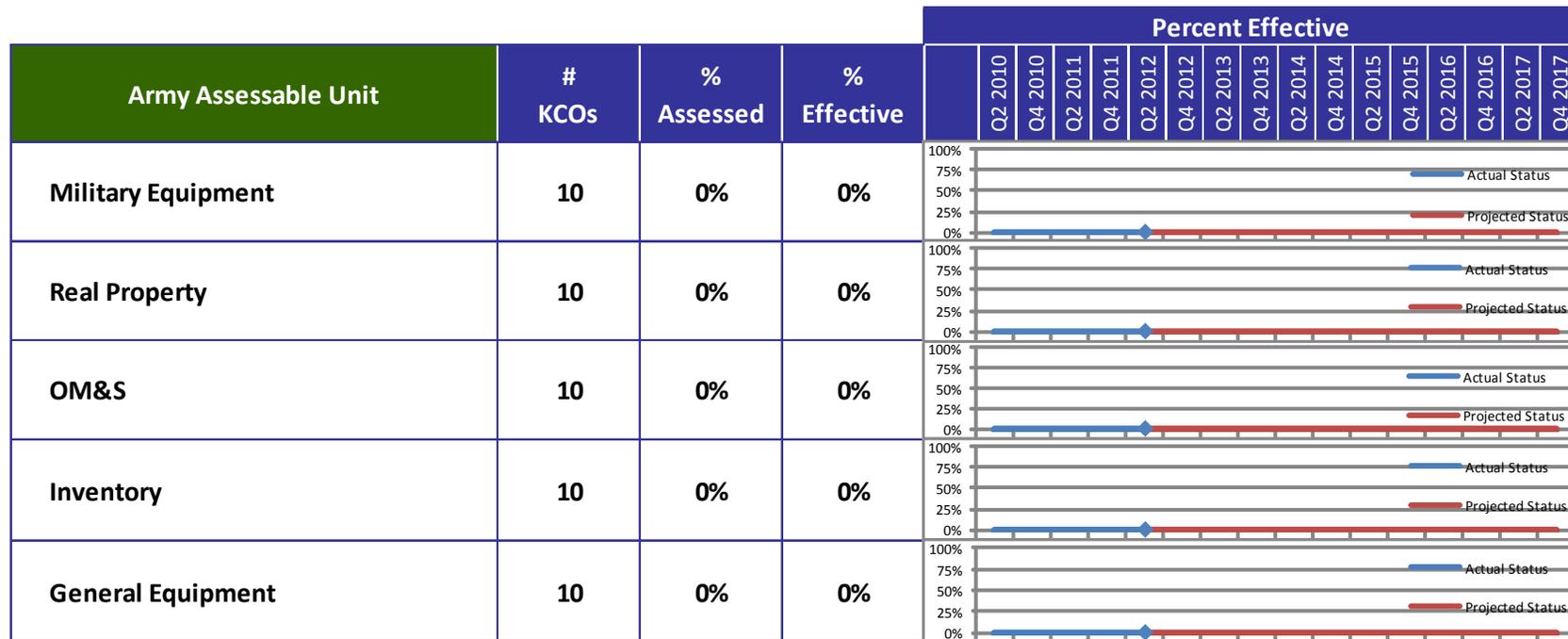
Note 2: Air Force is currently performing assessments. The projected effective status (red line) will increase when assessments are completed and projected effective dates are determined.



# Department of the Army



Figure VIII-9. Army Existence and Completeness Key Control Objective (KCO) Status and Projections



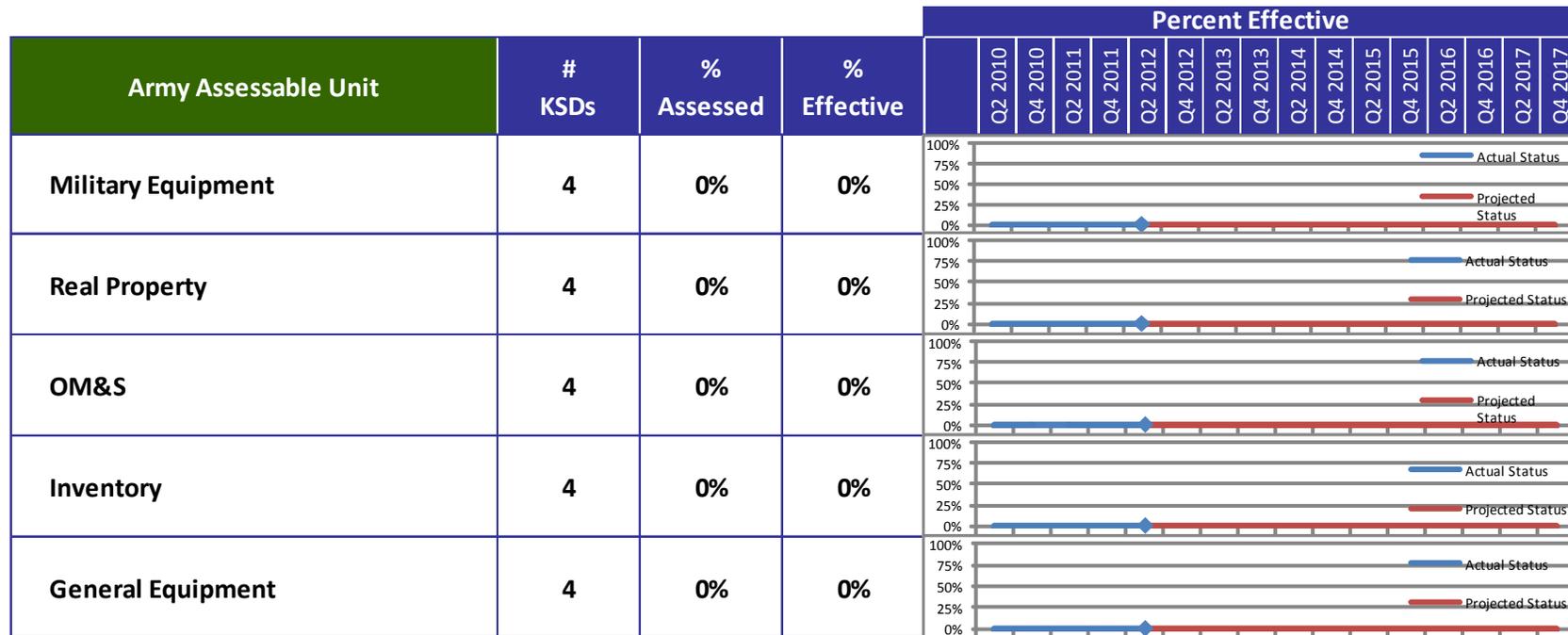
Army is currently performing assessments. The projected effective status will increase when assessments are completed and projected effective dates are determined.



# Department of the Army



Figure VIII-10. Army Existence and Completeness Key Supporting Document (KSD) Status and Projections



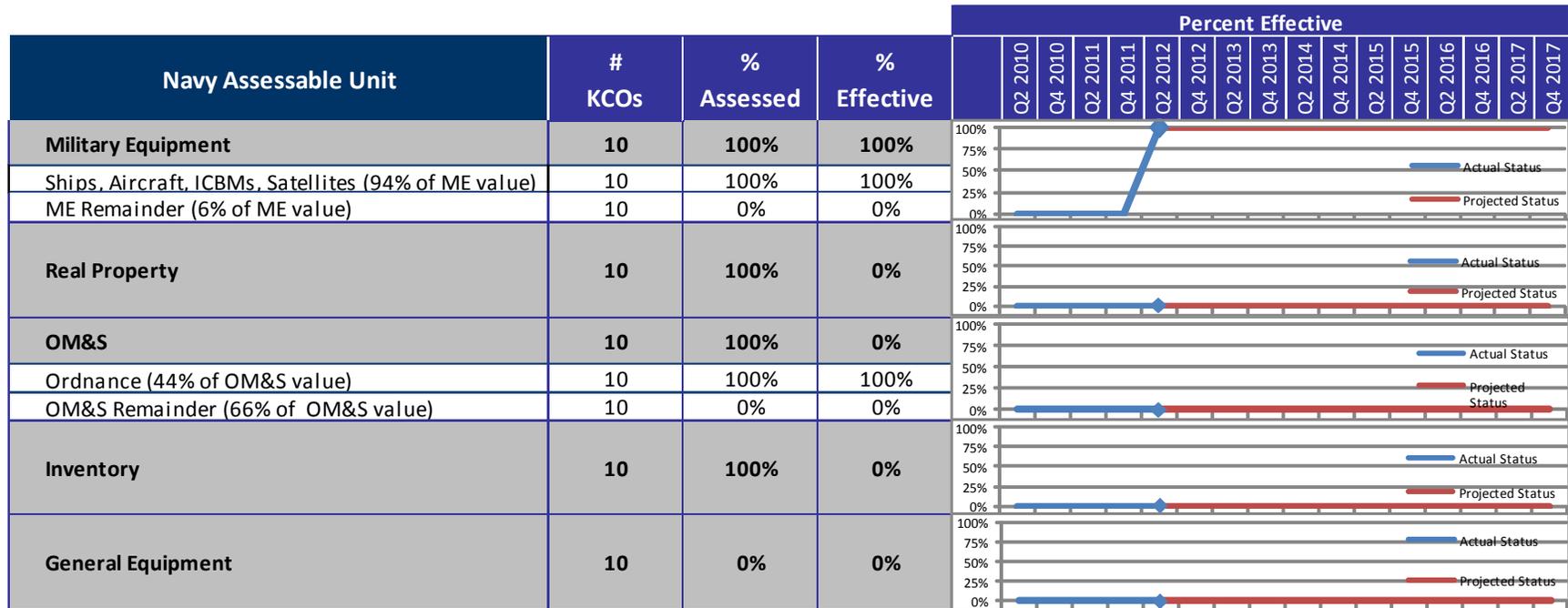
Army is currently performing assessments. The projected effective status will increase when assessments are completed and projected effective dates are determined.



# Department of Navy



Figure VIII-11. DON Existence and Completeness Key Control Objective (KCO) Status and Projections



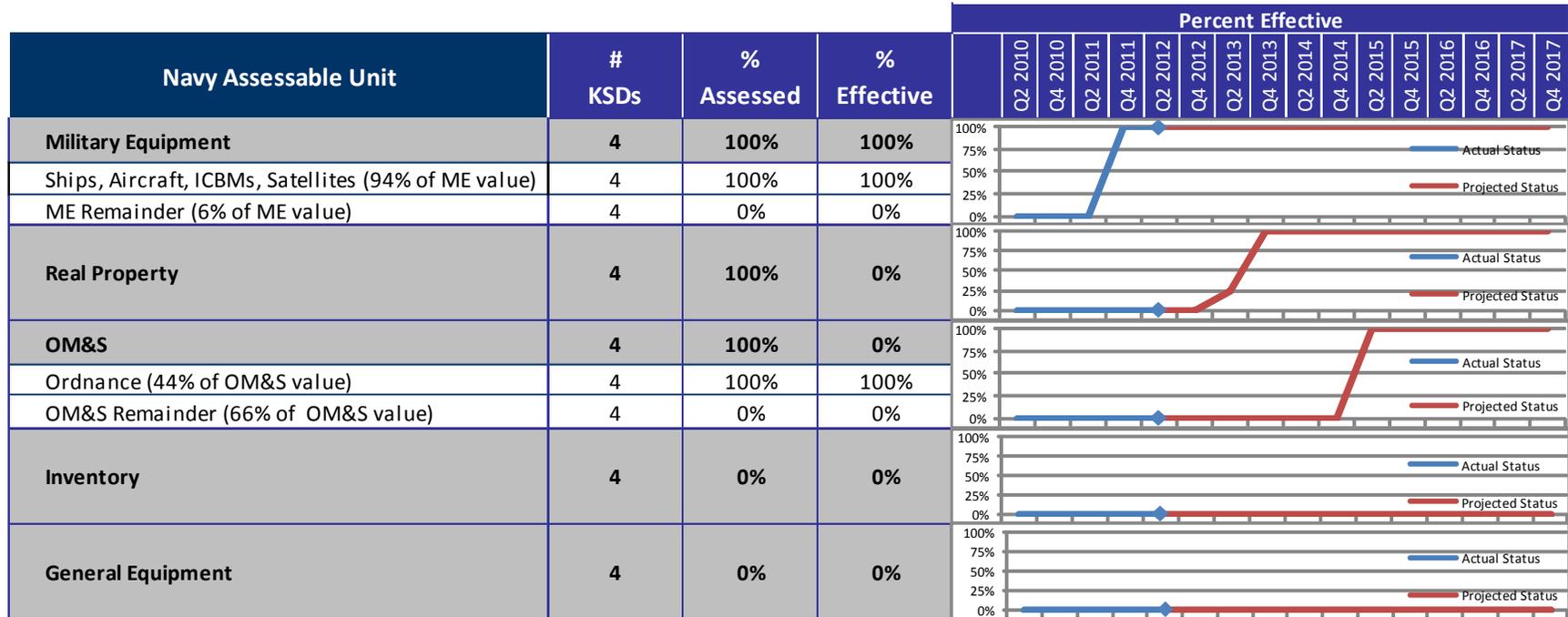
Note: The Percent Effective graph line is based on KCOs being assessed and effective for the entire asset category. As a result, quick win assertions for OM&S that have effective KCOs are not reflected above.



# Department of Navy



Figure VIII-12. DON Existence and Completeness Key Supporting Document (KSD) Status and Projections



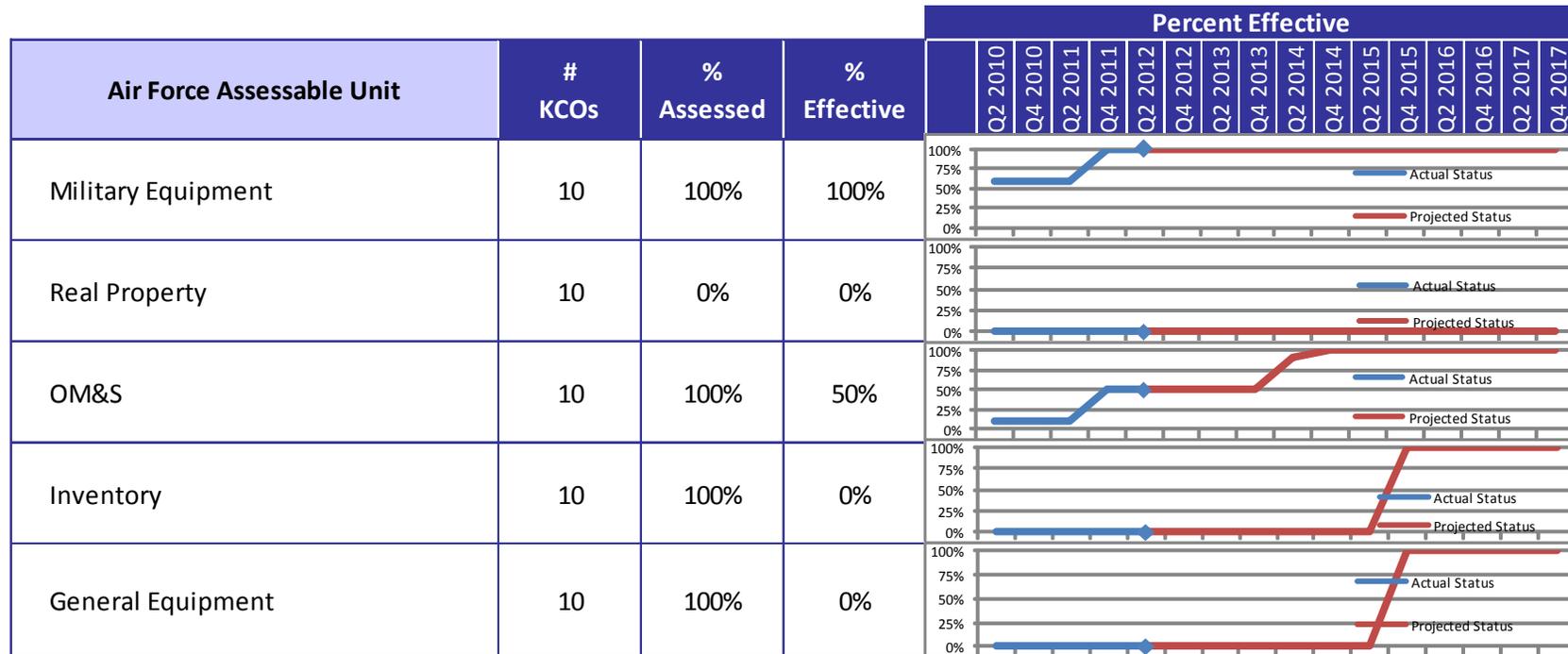
Note 1: DON is currently performing assessments for Inventory and General Equipment. The projected effective status will increase when assessments are completed and projected effective dates are determined.



# Department of Air Force



Figure VIII-13. Air Force Existence and Completeness Key Control Objective (KCO) Status and Projections



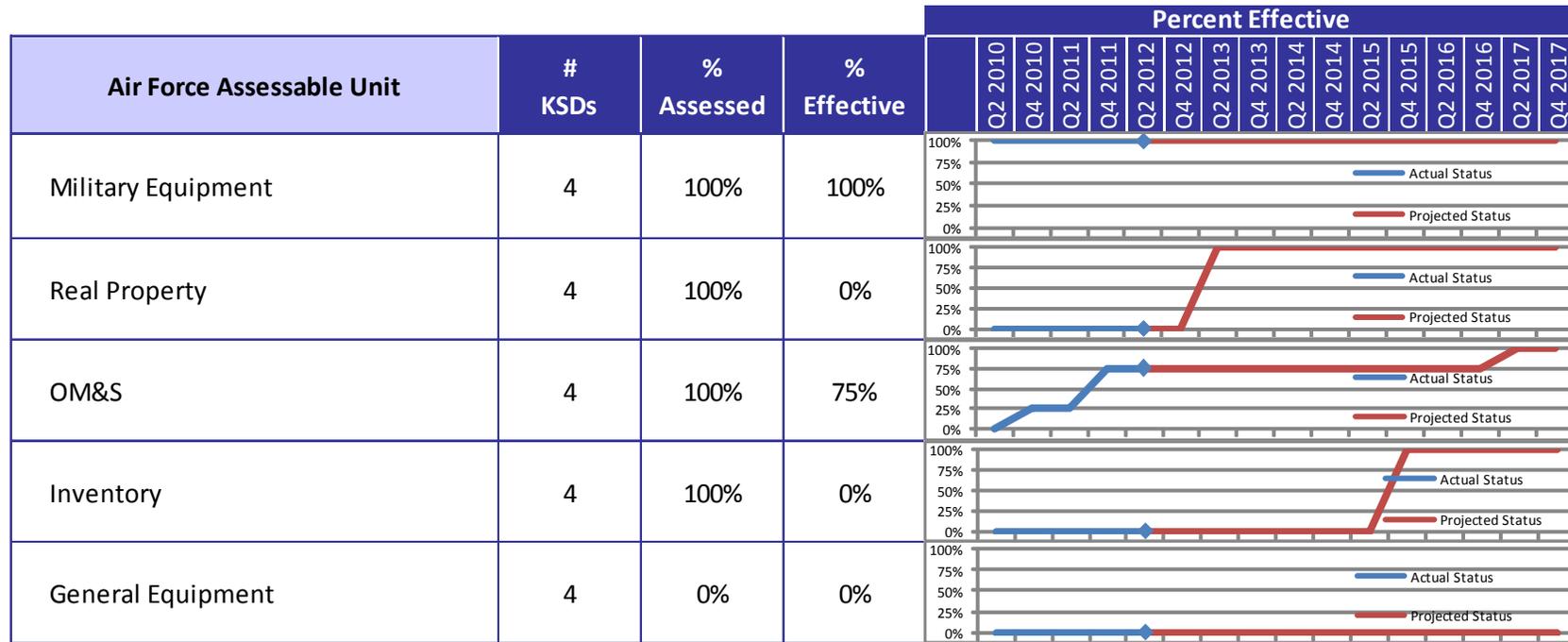
Air Force is currently performing assessments for Real Property. The projected effective status (red line) will increase when assessments are completed.



# Department of Air Force



Figure VIII-14. Air Force Existence and Completeness Key Supporting Document (KSD) Status and Projections



Air Force is currently performing assessments for General Equipment. The projected effective status (red line) will increase when assessments are completed.

## OPERATIONAL IMPROVEMENTS IMPACTING BUDGETARY INFORMATION

The Components' FIAR activities impact financial operations and result in operational improvements that have a direct relationship on budgetary information and the audit readiness of the SBR. The Operational Improvement metrics measure progress that improves budgetary information or measure outcomes of better budgeting information (e.g., Abnormal Fund Balances). As the Components proceed with discovery, evaluation, and remediation efforts to SBR assessable units, future positive trends in these metrics are anticipated. In the interim, results likely will continue to fluctuate due to issues related to legacy business processes and identification and correction of issues during implementation and deployment of the Enterprise Resource Planning (ERP) systems.

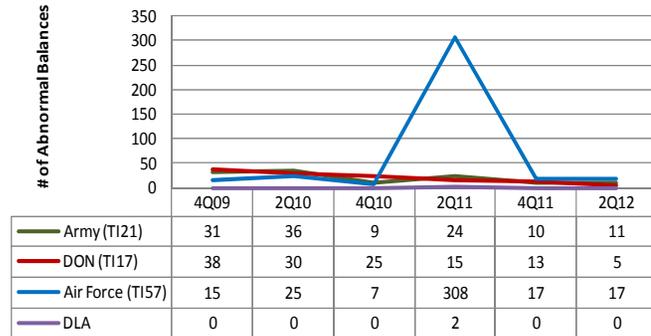
Each metric is accompanied by a description and identifies the goals, benefits, and results. These metrics include the following:

- Figure VIII-15. Overaged Abnormal AR(M) 1002 Unobligated Balances
- Figure VIII-16. Overaged In-Transit Disbursements & Collections > 60 days
- Figure VIII-17. Unmatched Disbursements > 120 Days
- Figure VIII-18. Problem Disbursements Negative Unliquidated Obligations > 120 days
- Figure VIII-19. Abnormal SF133 Balances

## FIAR Plan Status Report

Figure VIII-15

**Metric Title: Overaged Abnormal AR(M) 1002 Unobligated Balances  
Wave 2 - SBR**



**Description**

This metric measures the number of abnormal fund balances, at levels lower than the appropriation level, not resolved within 60 days. An abnormal balance exists when a debit balance account has a credit balance or vice versa.

**Goal**

0 abnormal balances unresolved in greater than 60 days.

**Benefit**

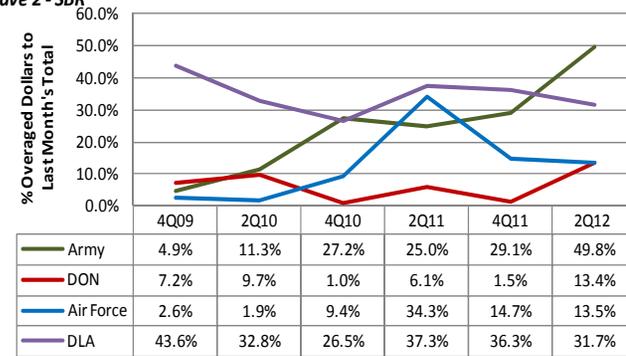
Preventing and/or timely resolution of abnormal fund balances results in more accurate obligation and outlay balances on management reports and the Statement of Budgetary Resources, resulting in better utilization of funds in the year appropriated.

**Results**

- The Navy recently made changes to their prior year balances, resulting in an increase in previously-reported abnormal balances in 4Q10 (from 13 to 25). Abnormal balances significantly decreased (from 13 to 5) in 2Q12.
- The Army's abnormal balances slightly increased from 4Q11 to 2Q12 primarily due to realignment of funding at the proper level of distribution.
- The Air Force number of abnormal balances did not change from 4Q11. The previous spike in Air Force overaged abnormal balances for 2Q11 was caused by AF policy of not distributing funding to the program level when operating under a continuing resolution. The distribution or re-distribution of funding to the detail level remains an issue that results in abnormal balances.
- DLA has no overaged abnormal balances.

Figure VIII-16

**Metric Title: Overaged In-Transit Disbursements & Collections > 60 days  
Wave 2 - SBR**



**Description:**

This metric measures Component timeliness in recording collections and disbursements. An in-transit disbursement or collection is a payment or collection made by one activity on behalf of another accounting activity, but not yet recorded in the general ledger of the accounting entity.

**Goal:**

To have 5% or less of the prior month's total absolute in-transit balance greater than 60 days old.

**Benefit:**

Timely recording of disbursements and collections results in greater accuracy of Components' accounts balances on management reports and the SBR resulting in better utilization of funds.

**Results:**

- Army overaged in-transit percentage increased due to ongoing issues with GFEBs processing of civilian payroll transactions, posting acknowledgements not being transmitted to DCAS, missing and/or duplicate clearance transactions, and delays in processing Intermediate Document (IDOC) errors. Estimated corrections will be completed by December 2012.
- DON overaged in-transit percentage increased due to invalid accounts payables, unprocessed cash, and failed pre-validation transactions. In addition, an error reclassification by BAM increased the DON in-transit percentage.
- Air Force overaged in-transit percentage slightly decreased from 4Q11 to 2Q12 due to the extensive training and transaction reviews.
- DLA overaged in-transit percentage decreased in from 4Q11 and 2Q12.

## FIAR Plan Status Report

Figure VIII-17

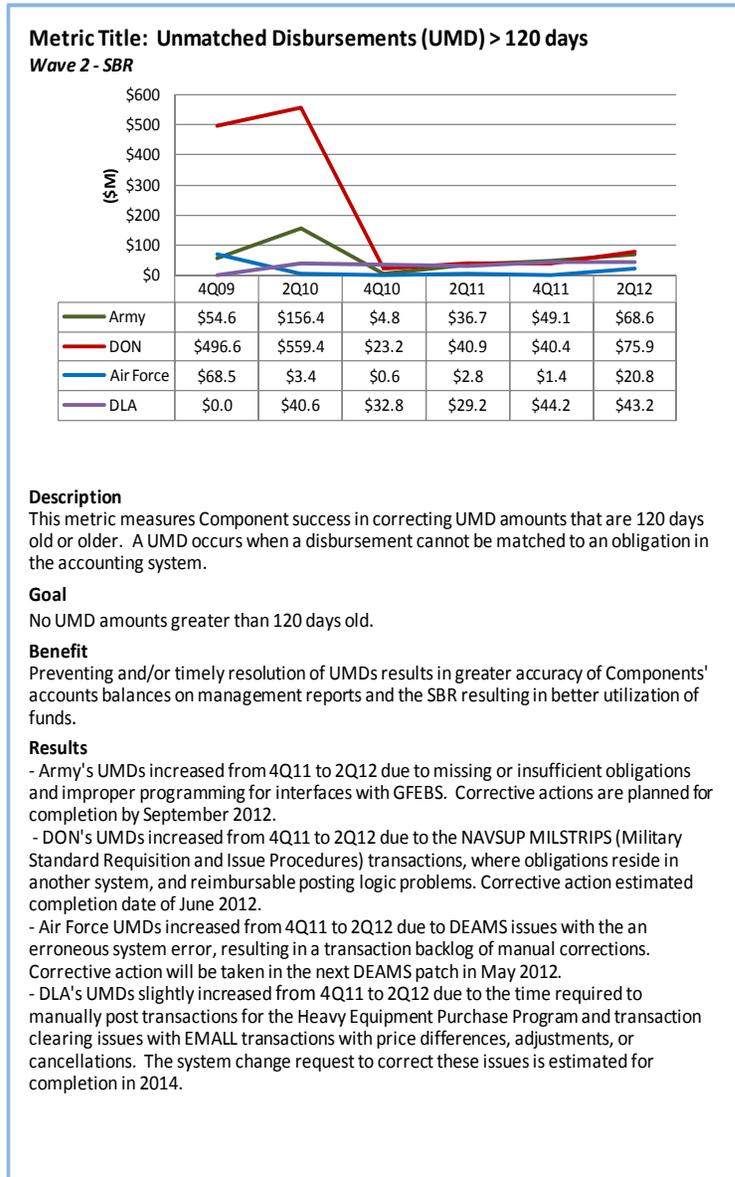
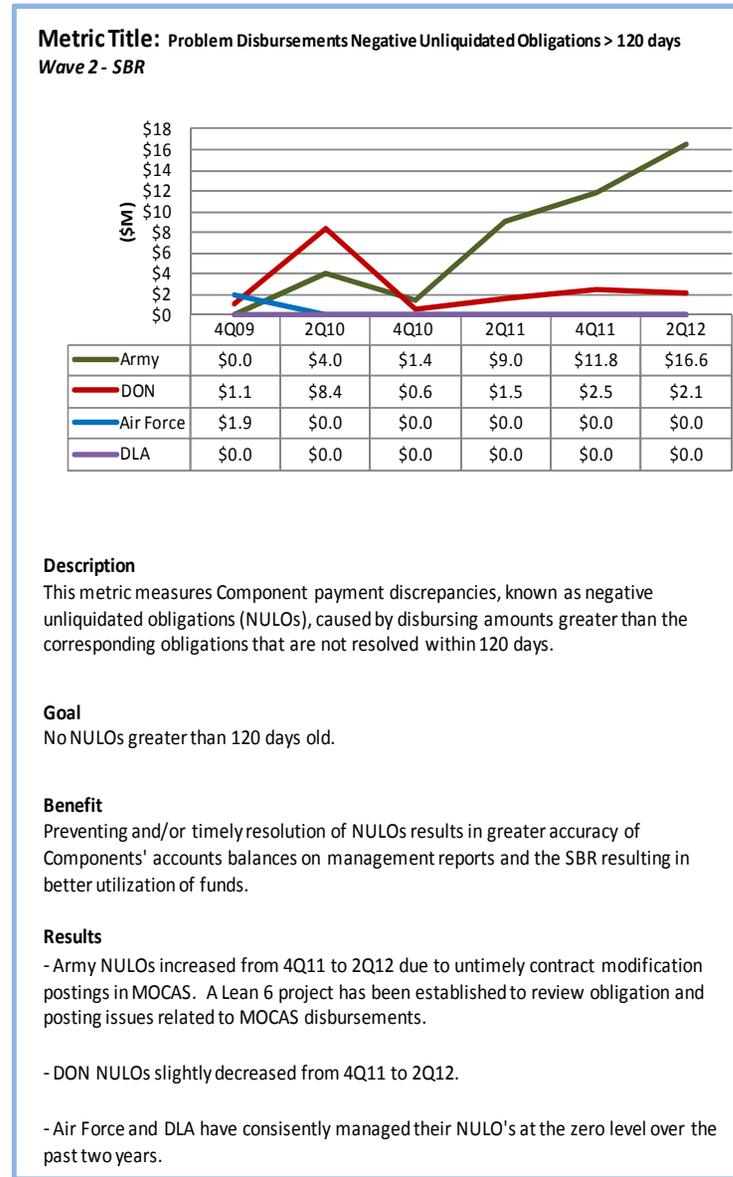
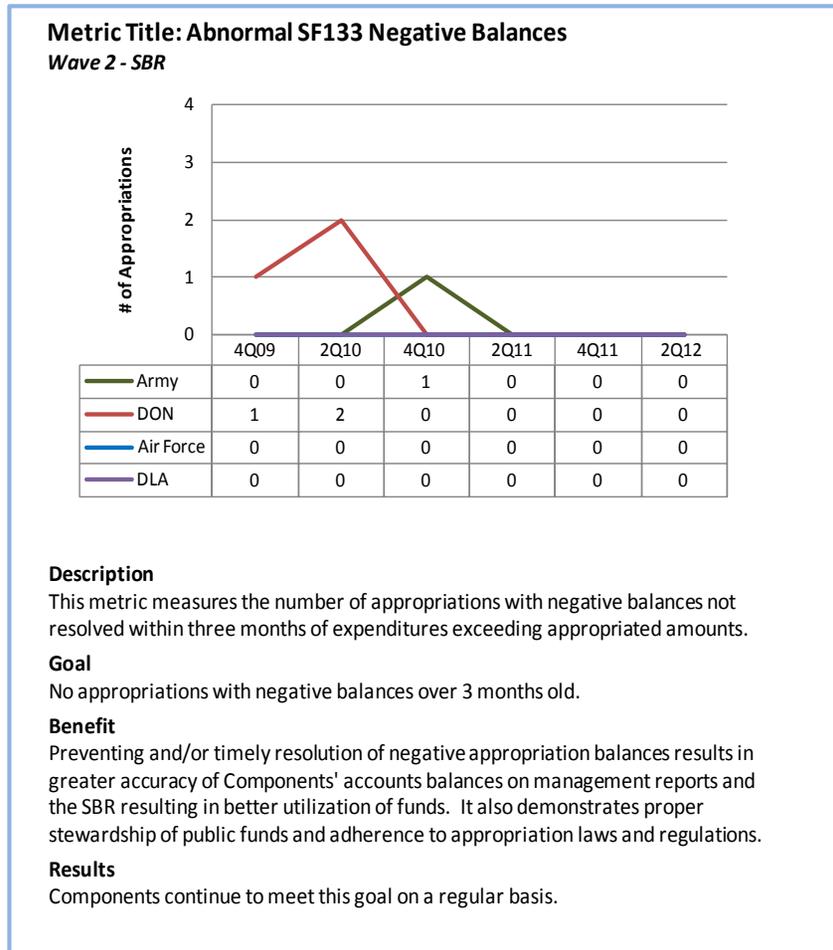


Figure VIII-18



## FIAR Plan Status Report

Figure VIII-19.



## OPERATIONAL IMPROVEMENTS IMPACTING MISSION CRITICAL ASSET INFORMATION

The metrics in this subsection measure improvements to functions and capabilities that impact mission critical asset information. They either measure process improvements, needed to achieve better asset information (e.g., Equipment Contracts Compliant with Item Unique Identification (IUID), or outcomes resulting from better asset information (e.g., OM&S Release Denial Rate).

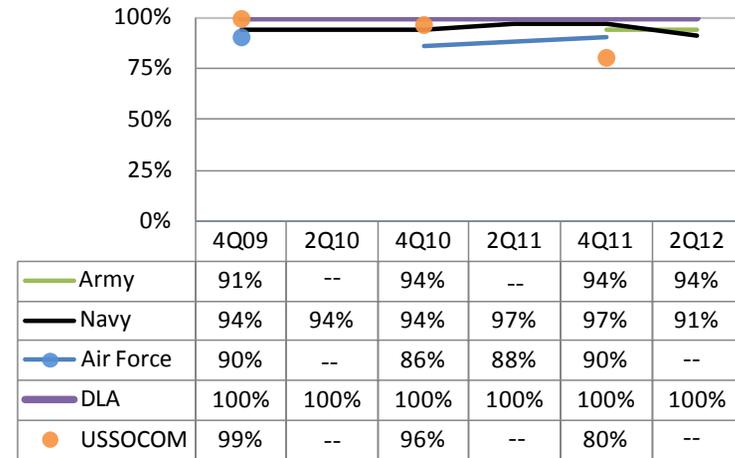
Each of the following metrics include a description, goal, benefits, and results:

- Figure VIII-20 Contracts Compliant with Item Unique Identification (IUID)
- Figure VIII-21 Military Equipment Inventory Completion
- Figure VIII-22 General Equipment Inventory Completion
- Figure VIII-23 Real Property Asset Reconciliation
- Figure VIII-24 Real Property Physical Inventory Completion
- Figure VIII-25 Physical Inventory Adjustments – Real Property
- Figure VIII-26 Inventory Valued at Moving Average Cost
- Figure VIII-27 Inventory Release Denial Rate
- Figure VIII-28 Physical Inventory Adjustments – Inventory Quantity
- Figure VIII-29 OM&S Valued at Moving Average Cost
- Figure VIII-30 Physical Inventory Adjustments – OM&S Quantity

Figure VIII-20

**Metric Title: Contracts Compliant with Item Unique Identification (IUID)**

**Wave 3 - Existence and Completeness**



**Description:**

DoD policy requires that contracts for DoD assets include a requirement for contractors to mark assets with a unique item identifier upon delivery to the government. In December 2007, the Department directed Components to report contract compliance in a Score Card to the Defense Procurement and Acquisition Policy (DPAP) Office. This metric tracks the percentage, by Component, of contracts compliant with the Directive as reported to DPAP.

**Goal:**

100% IUID contract compliance.

**Benefit:**

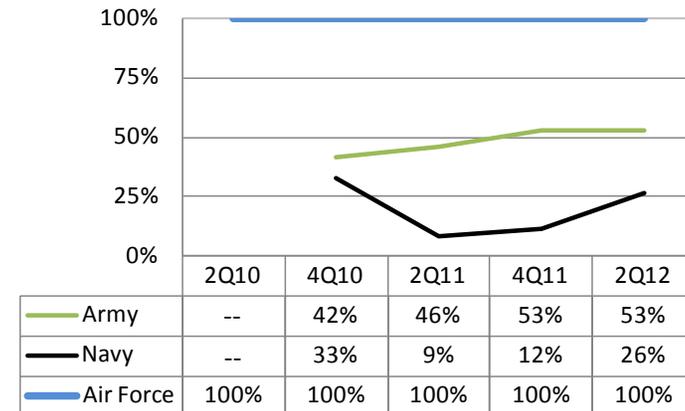
Compliance with this requirement supports audit readiness and the tracking of DoD assets. Improving DoD asset visibility and traceability provides more accurate data to support management decisions for improved readiness for military missions.

**Results:**

Compliance with IUID requirements remains consistently high across the Department, but with the exception of DLA, is not yet at 100%. SOCOM reports this metric annually. Air Force did not submit data for this reporting period.

Figure VIII-21

**Metric Title: Military Equipment Inventory Completion**  
**Wave 3 - Existence and Completeness**



**Description:**

DoDI 5000.64 requires Components to inventory all Military Equipment (ME) assets at least every 3 years. This metric shows the percentage of Components' military equipment, as of a specific point in time, that has been inventoried during the previous 3 years.

**Goal:**

100% of ME assets inventoried over a 3-year time span.

**Benefit:**

Physical inventory is a key control activity and is vital to audit readiness.

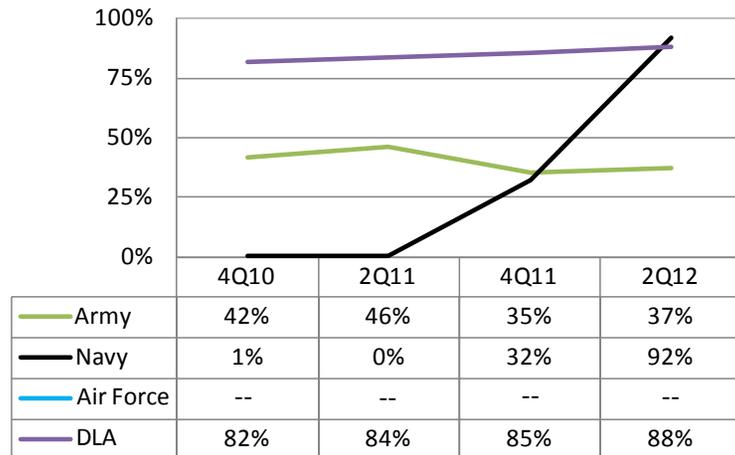
**Results:**

Navy's identified ME population (which does not include Marine Corps assets for this metric) increased significantly in 2Q11, which reduced its percent inventoried. Navy also has prioritized assets with the higher value (but low in quantity) for existence and completeness. Additional work is being done at Navy and Army to capture and verify inventories that are conducted at the unit level. Air Force continues to report at 100%.

## FIAR Plan Status Report

Figure VIII-22

### Metric Title: General Equipment Inventory Completion Wave 3 - Existence and Completeness



#### Description:

DoDI 5000.64 requires Components to inventory all equipment assets at least every 3 years. This metric shows the percentage of Components' general equipment, as of a point in time, that has been inventoried during the previous 3 years.

#### Goal:

100% of general equipment assets are inventoried over a 3 year time span.

#### Benefit:

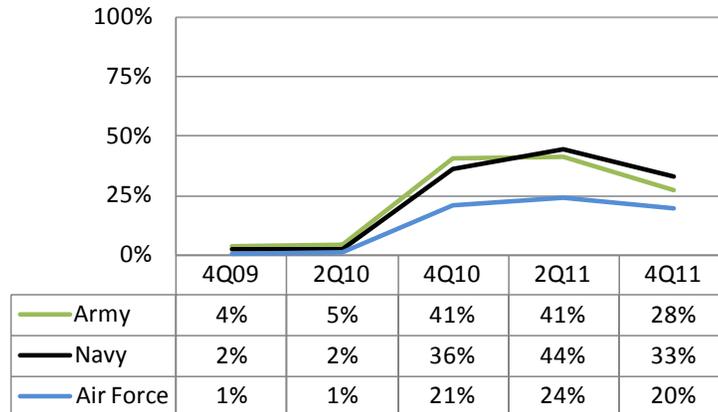
Physical inventory is a key control activity and is vital to audit readiness.

#### Results:

Navy results (which include Marine Corps GE assets) increased from 2011 primarily due to including ground support equipment, previously not captured in this metric. The Army continues to identify ways to capture physical inventories performed at the unit level. DLA has inventoried the majority of its GE. Air Force anticipates it will capture and begin reporting the date inventories were performed beginning in August 2012.

Figure VIII-23

### Metric Title: Real Property Asset Reconciliation Wave 3 - Existence and Completeness



#### Description:

In accordance with DoDI 4165.14, all DoD real property data must be reconciled among the Defense Agencies and Military Services. This metric displays the percent of Components' real property meeting this requirement.

#### Goal:

100% of Defense Agencies' real property assets reconciled by the end of FY11.

#### Benefit:

Reconciling real property records will provide management with better access to accurate, complete data which will facilitate better decision making and support audit readiness.

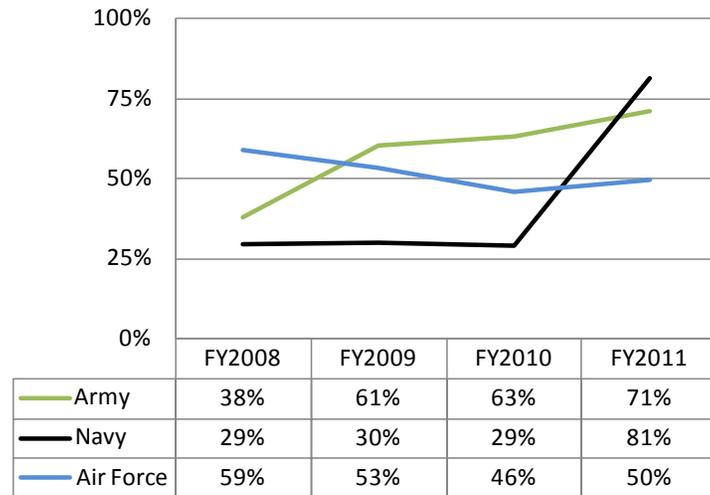
#### Results:

The Department did not meet its goal to reconcile 100 percent of real property by the end of FY 2011; the goal will be revisited. Reconciliation percentages in 4Q11 declined primarily due to two factors. Processes have not been sustained, and as a result new assets frequently have not been reconciled. In addition, many corrections of identified discrepancies have not been recorded in a timely manner. Data for 2Q12 was not available for this report due to the time it takes to validate the data.

## FIAR Plan Status Report

Figure VIII-24

### Metric Title: Real Property Physical Inventory Completion Wave 3 - Existence and Completeness



**Description:**

DoDI 4165.14 requires Components to inventory all real property assets at least every five years. This metric shows the percentage of Services' real property inventoried within a 5 year time span against the total number of reported assets.

**Goal:**

Physical inventory of 100% of real property assets over a five year period.

**Benefit:**

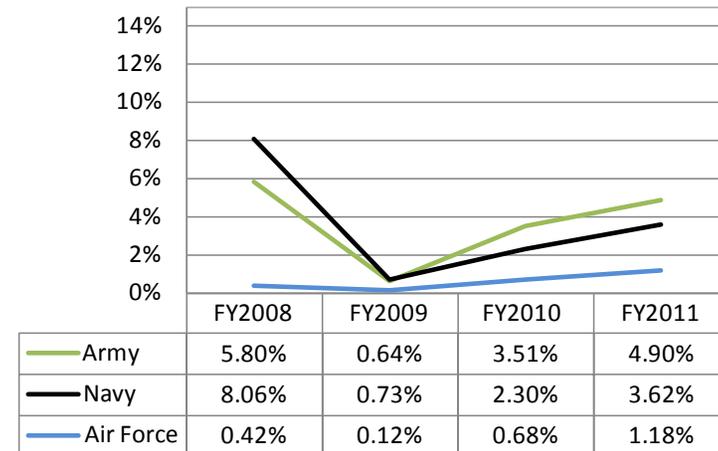
Inventory of all real property is important for audit readiness, especially pertinent to completeness, but also supporting other assertions as well. This metric provides a status on the Services' compliance with this important control activity.

**Results:**

All Services' real property physical inventory percentages increased, with the Navy making significant gains by devoting more effort and resources. Data is submitted annually by the Services for this metric.

Figure VIII-25

### Metric Title: Physical Inventory Adjustments - Real Property Wave 3 - Existence and Completeness



**Description:**

DoDI 4165.14 requires Components to inventory all real property assets at least every five years. This metric shows the percentage of a Component's real property asset records that are either added ("found on post", "inventory adjustment") or archived ("loss by inventory") from its real property inventory. Beginning in FY2010, the category of "other" was also added to the adjustment criteria. Significant additions or deletions as a result of inventory activities may indicate internal control weaknesses.

**Goal:**

Physical inventory process confirms the effectiveness of the acquisition and disposal processes and results in no material adjustments.

**Benefit:**

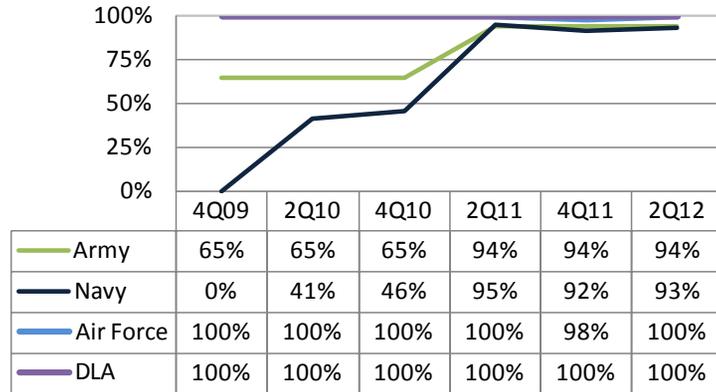
Accurate property records enable managers to effectively plan for and execute the DoD mission.

**Results:**

"Found on post", "loss by inventory", and "Other" adjustments fell and then increased again as Services continue to clean up older records through physical inventory activities. Data is submitted annually by the Services for this metric.

Figure VIII-26

**Metric Title: Inventory Valued at Moving Average Cost**  
**Wave 4 - Valuation**



**Description:**

This metric shows the Components' status as a percentage of dollars for valuing appropriate inventory at a moving average cost (MAC). This costing method is used in conjunction with a perpetual inventory system. A weighted average cost per unit is recalculated following each purchase. This costing method is required by DoD.

**Goal:**

100% of Inventory valued at MAC, where applicable.

**Benefit:**

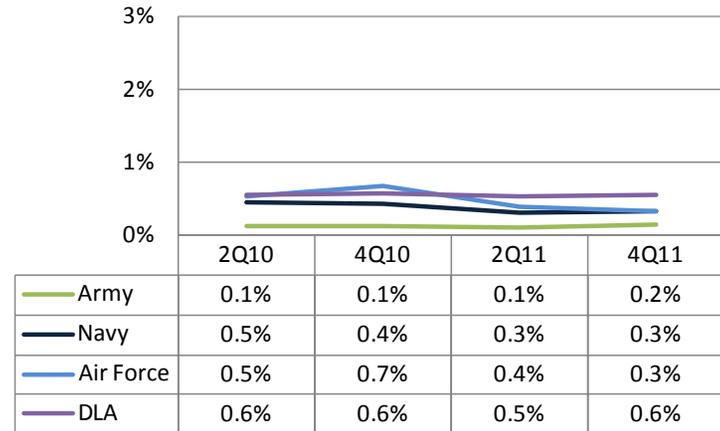
Valuing inventory at MAC will bring DoD into compliance with current Federal accounting standards and DoD regulations. It will also provide users of financial reports the most accurate picture of the actual value of inventory in stock.

**Results:**

Inventory is valued at moving average cost across the Department.

Figure VIII-27

**Metric Title: Inventory Release Denial Rate**  
**Wave 3 - Existence and Completeness**



**Description:**

This metric displays the percentage of requested Inventory material releases that were not shipped by a warehouse or distribution center due to the requested assets not being of the type, quantity or location indicated in the system. While there are appropriate reasons to deny the release of Inventory, denials as a result of inaccurate records may indicate poor controls related to asset existence.

**Goal:**

Denial rates due to inaccurate records remain under 1%.

**Benefit:**

Tracking denial rates provides visibility into a critical function of Inventory management. Inventory records and quantities need to be accurate to ensure that supplies are refreshed and available when needed for missions.

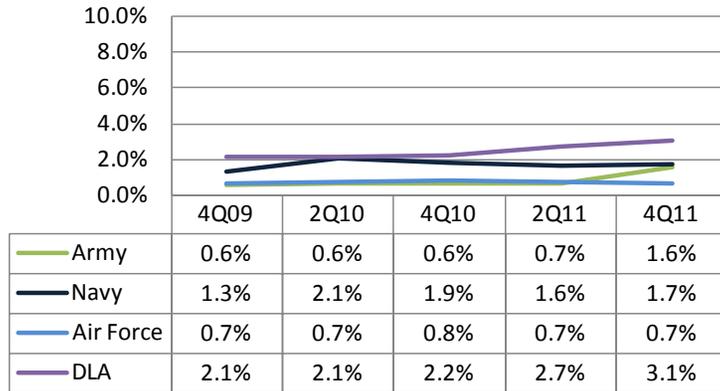
**Results:**

Army, Navy, Air Force and DLA show consistent denial rates of less than 1%. This is a positive indicator of existence controls. Data for 2Q12 was not available for this report due to the time it takes to validate the data.

Figure VIII-28

**Metric Title: Physical Inventory Adjustments-Inventory Quantity**

**Wave 3 - Existence and Completeness**



**Description:**

Inventory is periodically counted to ensure stock levels are accurate. This metric shows the percentage of a Component's inventory balance managed by DLA that is adjusted as a result of physical inventory activities during a six month time period. Significant adjustments as a result of inventory activities may indicate internal control weaknesses. Poor acquisition controls can result in positive adjustments, while poor controls over inventory disposal can result in negative adjustments. This metric has been re-baselined back to 4Q09 due to improved data available from the Inventory Control Effectiveness (ICE) Report.

**Goal:**

Have sufficient controls in place so that physical inventories confirm the accuracy of inventory records and result in no material adjustments.

**Benefit:**

Accurate inventory records enable commanders and managers to effectively plan for and execute the DoD mission.

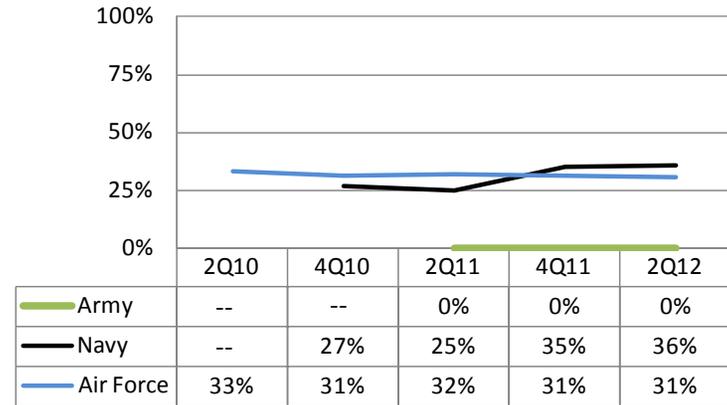
**Results:**

Adjustments are low for Component inventory managed by DLA. DLA's percentages are consistently higher than the Services, because DLA takes the first loss and first gain on adjustments for common assets. Data for 2Q12 was not available for this report due to the time it takes to validate the data.

Figure VIII-29

**Metric Title: OM&S Valued at Moving Average Cost**

**Wave 4 - Valuation**



**Description:**

This metric shows the Components' status as a percentage of dollars for valuing appropriate operating material and supplies at a moving average cost (MAC). This costing method is used in conjunction with a perpetual inventory system. A weighted average cost per unit is recalculated following each purchase. This costing method is required by DoD.

**Goal:**

100% of OM&S valued at MAC.

**Benefit:**

Valuing OM&S at MAC will bring DoD into compliance with current Federal accounting standards and DoD regulations. It will also provide users of financial reports the most accurate picture of the actual value of OM&S in stock.

**Results:**

Further progress in valuing OM&S at MAC is dependent on additional systems functionality included currently being implemented. For example, Army anticipates a significant increase in OM&S valued at MAC when LMP is fully implemented.

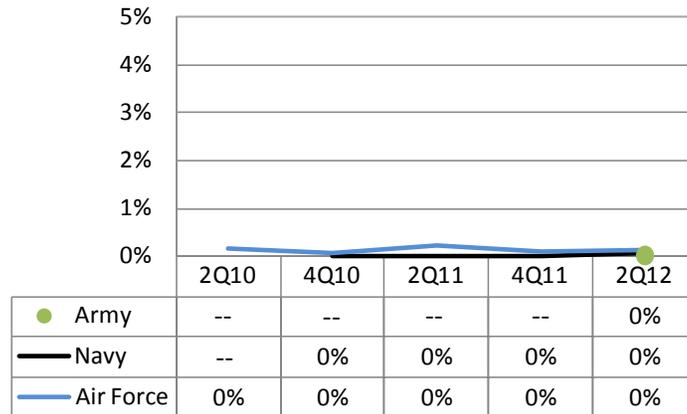
## FIAR Plan Status Report

Figure VIII-30

### Metric Title: Physical Inventory Adjustments - OM&S

#### Quantity

#### Wave 3 - Existence and Completeness



#### Description:

Operating material and supplies are periodically counted to ensure stock levels are accurate. This metric shows the percentage of a Component's OM&S balance that is adjusted as a result of physical inventory activities during a six-month time period. Significant adjustments as a result of inventory activities may indicate internal control weaknesses. Poor acquisition controls can result in positive adjustments, while poor controls over OM&S usage can result in negative adjustments.

#### Goal:

Have sufficient controls in place so that physical inventories confirm the accuracy of OM&S records and result in no material adjustments.

#### Benefit:

Accurate OM&S records enable commanders and managers to effectively plan for and execute the DoD mission.

#### Results:

Adjustments to OM&S remain low across the Services. This is a positive indication of internal controls.

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## Appendix 1. HASC Panel on Defense Financial Management and Auditability Reform Recommendations

The House Armed Services Committee (HASC) Panel on Defense Financial Management and Auditability Reform (Panel) concluded its review of the DoD financial management system on January 24, 2012. This review was initiated to oversee the DoD financial management system's capacity for providing timely, reliable, and useful information for decision making and reporting. The Panel performed a six month review, holding eight hearings that covered a broad range of DoD financial management issues, with representatives from the Department of Defense, Government Accountability Office (GAO), and individuals from the private sector.

Upon the conclusion of the review, the Panel issued a report summarizing their findings and providing recommendations to the Department. The report and recommendations were divided into four categories:

- Financial Management and Audit Readiness Strategy and Methodology
- Challenges to Achieving Financial Management Reform and Auditability
- Financial Management Workforce
- Enterprise Resource Planning (ERP) System Implementation Efforts

Figure A1-1 lists each Panel recommendation and a brief summary of the Department's status and/or actions on the recommendations.

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<sup>1</sup> The HASC Panel defined financial management system as the processes (whether automated or manual) for initiating, authorizing, recording, and reporting DoD's operations and activities and for maintaining accountability for the related assets, liabilities, equity, and budgetary resources.

## FIAR Plan Status Report

Figure A1-1. DoD Actions on HASC Panel on Defense Financial Management and Auditability Reform Recommendations

Recommendation	Status	Actions Taken and Planned
<b>FIAR STRATEGY AND METHODOLOGY</b>		
1.1	The Department's FIAR strategy for Wave 4 (Full Audit Except for Legacy Asset Valuation) should include a complete analysis of interdependencies among Waves 1 – 3 and Wave 4.	Complete  The December 2011, update to the DoD FIAR Guidance provides additional detail on Wave 4 and its interdependencies with Waves 1 – 3.
1.2	The Department should establish a DoD Financial Reporting element, or wave, that includes a process for consolidating the components' financial information into the DoD's agency-wide financial statements. The Department should report this element's audit readiness progress in the FIAR Plan Status Report.	Complete  The Department established a Financial Reporting assessable unit within Wave 2, SBR.
1.3	The DoD should re-evaluate its position on accepting historical asset costs when the Department nears auditability on its financial statements in light of certain allowances in federal accounting standards. The findings of a re-evaluation may support the development of an audit readiness strategy for valuing legacy asset balances.	To Be Done  The Department will re-evaluate its position on valuing assets (historical asset costs) upon completing the FIAR priorities, specifically, audit readiness for the SBR by September 30, 2014, and validating the existence and completeness of mission critical assets.
1.4	The Department should: (1) analyze the causes of FIAR Plan implementation difficulties; (2) develop and implement corrective action plans to address identified weaknesses or deficiencies; and (3) develop a communications plan to circulate any resulting lessons-learned throughout the Department.	Ongoing  On a monthly basis, the OUSD(C) FIAR Directorate analyzes Component FIP progress in meeting milestones and compliance with DoD FIAR Guidance. Issues, challenges, and compliance with the DoD FIAR Guidance and milestone slippages are discussed at FIAR Committee and Subcommittee meetings. Additional corrective action plans are not needed at this time.  The FIAR Directorate has developed and is executing an effective communications plan. In addition, lessons learned are regularly shared at FIAR Committee and Subcommittee meetings.

## FIAR Plan Status Report

Recommendation		Status	Actions Taken and Planned
1.5	The Under Secretary of Defense (Comptroller) (USD(C)), in consultation with the Deputy Chief Management Officer (DCMO) of the Department of Defense, the secretaries of the military departments, and the heads of the defense agencies and field activities, should incorporate risk mitigation plans to support the meeting of future interim milestones in the FIAR Plan.	Ongoing	Risk mitigation is an ongoing activity within the Department's FIAR activities. Risks are immediately communicated and addressed, precluding the requirement for formal risk mitigation plans. Section VII of this Report identifies the Department's major challenges to achieving audit readiness and actions to mitigate such risk.
1.6	The FIAR Governance Board should attest to whether the DoD is on track to achieve audit readiness in 2017 in each FIAR Plan Status Report.	Complete	The FIAR Plan Status Report is coordinated with the FIAR Governance Board members prior to issuance, providing each member with the opportunity to formally attest to the accuracy and completeness of content and determine if their Component is on track to achieve audit readiness in 2017.
1.7	The House Armed Services Committee (or appropriate subcommittees) should conduct regular hearings and staff briefings to further monitor the progress of the DoD's FIAR efforts.	No Action Required	No action required by the Department.
<b>CHALLENGES TO ACHIEVING FINANCIAL MANAGEMENT REFORM AND AUDITABILITY</b>			
2.1	The Department should include objective and measurable criteria regarding FIAR-related goals in its senior personnel performance plans and evaluations. Performance evaluated on the basis of such criteria should be appropriately rewarded or held accountable. Evaluated performances should be documented and tracked to measure progress over time.	Ongoing	The Department requires the performance plans of appropriate senior personnel contain FIAR-related goals, with individuals held accountable for meeting these goals. Holding senior personnel accountable is essential to achieving FIAR goals and is a frequent topic of discussion at FIAR Governance Board meetings. The DCFO and FIAR Director review performance plans on a sample basis to monitor compliance with this requirement.

## FIAR Plan Status Report

Recommendation		Status	Actions Taken and Planned
2.2	To improve oversight of the FIAR effort, the Department should require each DoD component senior executive committee to review its corresponding component's audit readiness assertion packages for compliance with the FIAR Guidance prior to submission of those packages to the OUSD(C) for validation.	No Action Required	The Department's FIAR Guidance requires audit readiness management assertions be signed by the person, individual, or representative of the organization responsible for the subject matter. This level of review and approval is appropriate.
2.3	The Department should develop comprehensive corrective action plans to address existing material weaknesses and those identified during the FIAR effort.	Ongoing	All known material weaknesses and those identified during FIAR discovery work are addressed in Component FIPs, which includes corrective actions (in accordance with DoD FIAR Guidance).
2.4	To reduce improper payments, the Department should re-evaluate its methodology for identifying and reporting improper payments.	Complete	The Department implemented changes in the identification and reporting of improper payments. Specifically, the improper payment estimates for commercial pay will now include statistical sampling results, combined with the actual verified improper payments reported from other than statistical random samples, similar to the process used in Military Pay and Civilian Pay.
2.5	To reduce Anti-Deficiency Act violations, the Department should: <ul style="list-style-type: none"> <li>• Perform an analysis of the causes for its ADA violations and then develop and implement procedures to address identified causes.</li> <li>• Ensure that key funds control personnel are adequately trained to prevent, detect, and report ADA violations.</li> </ul>	Complete	<p>The USD(C)/CFO and DCFO meet with the Military Department Financial Management and Comptrollers on a regular basis to discuss ADA investigations. Analysis of and corrective actions for ADA violations are performed at the Component-level, while the DoD Financial Management Regulations (DoD FMR) provide the overarching Department-level policy governing administrative control of funds and ADA violations.</p> <p>The Department made changes to the DoD FMR that now require key fund control personnel and ADA investigators to take appropriation law refresher courses every three years vice five years so they can better fulfill their responsibilities to prevent, identify, and report potential ADA violations. Such training</p>

## FIAR Plan Status Report

Recommendation		Status	Actions Taken and Planned
			requirements will ensure funds control personnel and investigators are properly trained in the areas that assist them in establishing, reviewing, and maintaining effective administrative controls over appropriations and funds.
2.6	To reduce problem disbursements, the Department should address the underlying causes of problem disbursements in its efforts to develop and implement ERPs.	Ongoing	<p>In an effort to reduce problem disbursements in the ERP environment, current processes are routinely reviewed to identify and eliminate future occurrences. The Defense Finance and Accounting Service and its customers have collaborated utilizing Lean6 methodologies and working groups to map processes, identify business process issues and system challenges, and share user knowledge.</p> <p>Based on detailed analysis and collaboration, business processes are being redesigned and system change requests are being submitted as required in order to address the root causes thereby reducing future occurrences of the problems. Since all system challenges identified are not within the scope of the ERPs alone, the Department is working across the breadth of the DoD enterprise to effect system changes.</p>
2.7	The Department should identify and institutionalize best practices, as applicable, throughout the DoD to reinforce the full engagement of those functional communities outside of the financial management community in audit readiness efforts.	Ongoing	The FIAR Governance Board, FIAR Committee, and FIAR Subcommittee meetings are attended by representatives of the functional communities. Best practices that should be institutionalized are discussed at these meetings. If additional action is required to institutionalize such best practices, the ODCMO or Offices of the Principal Staff Assistants, such as the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics), take responsibility for such action.

## FIAR Plan Status Report

Recommendation		Status	Actions Taken and Planned
2.8	The Department should develop a forum in which the military commands can share lessons learned from their respective audit readiness efforts.	Ongoing	Lessons learned are routinely shared at FIAR Committee and Subcommittee meetings, and Component representatives share these lessons within their commands.
2.9	The DoD Comptroller should include milestones along with the status of DoD financial service provider efforts to achieve effective controls over the major processes that affect DoD customers in the FIAR Plan Status Reports. These milestones should be consistent with the customer organizations' audit readiness milestones.	Ongoing	The OUSD(C) and DoD FIAR Guidance require service providers to execute standard, consistent steps and milestones in support of their customers' efforts to achieve audit readiness. A new section (Section VI) within the FIAR Plan Status Report provides information on the service providers' approach, progress, and plans.
<b>FINANCIAL MANAGEMENT WORKFORCE</b>			
3.1	<p>The Department should assess its financial management workforce and that of all other functional areas performing financial management-related functions regarding:</p> <p>(1) critical skills and competencies of the existing civilian employee workforce; (2) critical skills and competencies that may be needed over the next decade; (3) gaps between current requirements and existing workforce competencies; and (4) gaps between projected requirements and existing workforce competencies. The assessment should include federal civilian, military, and contracted personnel performing financial management-related functions.</p>	Ongoing	<p>As the Functional Manager for the DoD Financial Community, the OUSD(C) completed the identification of the DoD enterprise-level financial management competencies. The OUSD(C) is working closely with OUSD(P&amp;R) to provide Components with guidance on performing competency assessments for their financial management workforce. Once these assessments (scheduled for FY 2012) are performed, OUSD(C) will lead the effort to identify gaps between current and projected requirements and existing workforce competencies.</p> <p>The establishment of the proposed DoD Financial Management Certification Program will contribute to closing competency gaps in financial management and identify leadership training requirements.</p>
3.2	The Department should utilize the expertise of CPAs with financial statement audit experience in its audit readiness efforts as conducted by the federal civilian workforce or contracted personnel, as appropriate.	Ongoing	The Department will continue to hire CPAs to fill appropriate government positions as well as continue to contract with Independent Public Accounting firms to support FIAR efforts.

## FIAR Plan Status Report

Recommendation	Status	Actions Taken and Planned
<p>3.3</p> <p>The Department should develop and implement effective financial training programs for personnel serving in functional communities outside of the financial management community.</p>	<p>Ongoing</p>	<p>The USD(C)/CFO is leading the initiative to establish a DoD Financial Management Certification Program, which includes financial management and leadership training.</p> <p>The Components will have authority to include non-financial management personnel in the proposed DoD Financial Management Certification Program.</p>
<p>3.4</p> <p>The Department should develop and implement effective ERP training programs for personnel within and outside of the financial management community who utilize, or will be expected to utilize, an ERP system in their day-to-day operations. In developing these training programs, the Department should implement lessons learned from previous training provided to ERP users.</p>	<p>Ongoing</p>	<p>As stated in the HASC report, the USD(C)/CFO agrees that a Department-wide framework is needed to prioritize training at various points throughout one's financial management career. Toward that end, a three-tiered Financial Management Certification Program has been proposed and supported by the FY 2012 NDAA that will emphasize audit readiness and analytical competencies.</p> <p>While the certification program will establish foundational competencies for the financial management workforce, the ERPs' end-to-end processes are not performed solely by that community. To ensure that all personnel who may influence or perform these processes are competent and comprehend their roles in auditability, each ERP program has implemented extensive training that leverages lessons learned as well as new training methods and tools (including simulation, collaboration, social media, and learning portals). Web-based and instructor-led training provide hands-on and interactive exercises that are geared toward getting the fundamentals right and reengineered business processes understood. The ERP program offices monitor the effectiveness of their training (through feedback mechanisms, such as course surveys) and implement improvements on a continuous basis. In addition, the DoD Components are institutionalizing ERP system use within specialized skill and technical training programs at their schools.</p>

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Recommendation	Status	Actions Taken and Planned
<p>3.5 The Department should develop its proposal for an exchange program between the DOD and the private sector. In doing so, the Department should develop specific criteria, regarding the personnel to be exchanged and the organizations that would participate. The Department should then submit its proposal to the congressional committees of jurisdiction for consideration.</p>	<p>Ongoing</p>	<p>The Department is drafting its proposal to request authorization for a Pilot Program for the Temporary Exchange of Financial personnel, to be known as the Financial Exchange Program. The intent of this program is to allow both Department and private sector auditors and accountants, who work in the field of financial management, to participate in a temporary work exchange program.</p> <p>In addition, the Department is developing the details needed to support this collaborative learning venture, where the Department and private industry organizations will have a unique opportunity to share best practices and enhance employee/organizational capabilities through personnel exchanges that range from three months to one year and encompass a wide range of financial management critical areas.</p> <p>The Department currently is researching:</p> <ul style="list-style-type: none"> <li>• Basic eligibility requirements</li> <li>• Goals and objectives of participants</li> <li>• Responsibilities</li> <li>• Desired competencies and skills</li> <li>• Benefits</li> </ul>

## FIAR Plan Status Report

Recommendation	Status	Actions Taken and Planned
<b>ERP SYSTEM IMPLEMENTATION EFFORTS</b>		
4.1	<p>The Department should include additional details on ERP programs in the FIAR Plan Status Reports, including full deployment dates, when known, and key milestone dates. These status reports should describe the risks and potential consequences of: (1) failing to satisfy outstanding ERP functionality requirements; or (2) incurring future ERP milestone delays. The status reports should describe the mitigation measures taken by the Department to reduce these risks. The status reports should also explain any actual schedule slippages or cost increases and the actions taken by the DOD to remedy any such development.</p>	<p>Ongoing</p> <p>The OUSD(C)/FIAR and ODCMO agree that future FIAR Plan Status Reports, beginning with this Report, will include more detail regarding the ERP programs to better evaluate progress toward auditability, timely implementation of corrective measures, and to increase confidence in the management of these investments.</p> <p>The ODCMO will work with the Military Department CMOs to identify appropriate “key milestones,” to semi-annually collect and report information on milestone delays, and explain schedule slippages and cost increases.</p>
4.2	<p>The ERP program offices should integrate FIAR milestones into their program schedules. ERP program managers should be evaluated on their ability to maintain FIAR milestones as well as program acquisition-related milestones.</p>	<p>Ongoing</p> <p>The OUSD(C)/FIAR and ODCMO will work to ensure integration of acquisition program milestones, Component FIP milestones, software development lifecycle schedules, and investment certification (under 10 USC 2222) milestones. The ODCMO is incorporating FIAR milestones into Acquisition Decision Memoranda (ADM) for ERP programs, thereby ensuring the FIAR milestones are part of the acquisition program baseline for which the ERP program managers are responsible and accountable.</p> <p>Increased visibility will be achieved through the new Defense business system portfolio management process to be implemented within the next 12 months by requiring alignment and publication of all milestones.</p> <p>The ODCMO will ensure the Military Department CMOs evaluate ERP program managers on their ability to meet the FIAR and FIP milestones incorporated in the ERP implementation schedules.</p>

## FIAR Plan Status Report

Recommendation	Status	Actions Taken and Planned
<p>4.3 The Department should develop ERP-related schedule and cost estimates based on best practices for future ERP deployments.</p>	<p>Ongoing</p>	<p>The Department agrees that better methods are needed for estimating ERP implementation cost and scheduling. However, experience with these programs over the past eight years, coupled with industry best practices, have helped shape the strategies that are now being used in the management and oversight of ERP Implementations. These include:</p> <ul style="list-style-type: none"> <li>• Increasing discipline in requirements management.</li> <li>• Reengineering business processes before focusing on material solutions.</li> <li>• Mandating affordability as a requirement and developing “should-cost” targets using sound estimating techniques based on bottom-up assessments of what programs should cost if reasonable efficiency and productivity enhancement efforts are undertaken.</li> <li>• Reducing customizations to commercial software.</li> <li>• Sustaining leadership involvement throughout the lifecycle.</li> <li>• Emphasizing organizational change management to ensure end users understand the impact to their jobs.</li> <li>• Shifting the Business Enterprise Architecture’s framework to end-to-end processes to better guide and constrain ERP development and interoperability.</li> <li>• Expanding government’s role for systems integration.</li> <li>• Leveraging flexible contract approaches to best meet the needs of the project phase based on risk.</li> <li>• Measuring business performance consistently to assess ERP impacts.</li> </ul>

## FIAR Plan Status Report

Recommendation	Status	Actions Taken and Planned
		<ul style="list-style-type: none"> <li>• Driving improvement through acquisition decisions.</li> <li>• Incorporating portfolio management methods to make the right investment decisions.</li> </ul>
<p>4.4 The Department should evaluate changes to ERP requirements as those systems are developed, implemented, and utilized.</p>	<p>Ongoing</p>	<p>The Department agrees that ERP requirements must be managed throughout the development life cycle; both within the program and through involved oversight (see Recommendation 4.3, above on leveraging best practices for requirements management).</p> <p>Each ERP program and “owning” Component has been witness to project scope creep and user-specific requirements that have driven cost and schedule challenges. The lesson learned has been to strengthen management discipline through change control boards and engaged knowledgeable senior-leader steering groups. In addition, the ODCMO, as part of the major automated information system acquisition and investment review processes, monitors the programs at a macro level for cost, schedule, and performance and takes appropriate actions to address risks to those.</p>
<p>4.5 The Department should evaluate its requirement process for ERP systems. The Department should assess the decision-making process, regarding ERP requirements, at every level of authority. The Department should then determine what, if any, changes may be needed.</p>	<p>Ongoing</p>	<p>The Department has evaluated and adjusted its requirement processes for Defense Business Systems (DBS) over the last five years. In 2010, the Department mandated the implementation of the Business Capability Lifecycle (BCL), which streamlines acquisition of DBS and requires disciplined delivery of well-scoped capabilities to end users in 18 months. The BCL operates within the established governance framework comprised of the Investment Review Boards and Defense Business Systems Management Committee, which in turn advise the Milestone Decision Authority for the ERP programs.</p>

## FIAR Plan Status Report

Recommendation	Status	Actions Taken and Planned
		<p>The ODCMO, in concert with the Military Department CMOs, will continue to assess current practices for governing requirements and implement changes as necessary.</p>
<p>4.6 The Department should establish risk mitigation plans to address actual and potential weaknesses or deficiencies associated with the development, implementation, or utilization of its ERP systems that could affect the achievement of FIAR goals. At a minimum, each risk mitigation plan should: (1) identify measures for resolving any such weaknesses or deficiencies; (2) assign responsibilities within the Department to implement such measures; (3) specify implementation steps for such measures; (4) provide timeframes for implementing such measures; and (5) identify any alternative arrangements outside of the ERP environment that may be necessary for meeting FIAR objectives.</p>	<p>Ongoing</p>	<p>The Department agrees that thoughtful and thorough risk management (including identification, analysis, and mitigation) is a requirement of effective information technology acquisition. The Department provides ample resources through the Defense Acquisition Guidebook, Program Manager Took Kit, and the Defense Acquisition University that can guide and educate program personnel in effectively managing future uncertainties. The DAG's Best Practices Clearinghouse also offers practices, evidence, and stories, including a robust section on risk management.</p> <p>The ERP programs, which follow the Defense Acquisition System for Major Automated Information Systems, are required to use these resources and manage risks appropriately. In addition, most of these programs have been the subject of studies using Enterprise Risk Assessment Methodology (ERAM), a proactive and independent risk assessment process used to reduce systemic risk and support informed decision making.</p> <p>The ODCMO will seek additional opportunities to evaluate risks as part of its revised acquisition oversight and investment review processes.</p>
<p>4.7 The Department should evaluate lessons learned from previous data conversion efforts, and it should incorporate these lessons into its ERP data conversion plans. The Department should update its ERP data conversion plans periodically. Updates should include assessments of: the progress made in converting data</p>	<p>Ongoing</p>	<p>The Department revised its Federal Sector ERP Data Conversion Best Practices Guide in 2009 based on lessons learned since its original publication. The guide and a conversion tracking tool are available through the Defense Acquisition University's EI Tool Kit and is used by ERP program managers and staff in developing their own conversion strategies.</p>

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Recommendation	Status	Actions Taken and Planned
<p>into the ERP environment; whether that progress supports the satisfaction of existing requirements; and whether additional data conversion requirements would facilitate the achievement of FIAR objectives. The Department should also assess the merits of designating a senior official (such as the CMO or the DCMO) to be responsible for the coordination and managerial oversight of data conversion.</p>		<p>The ODCMO will re-evaluate the lessons and update the guide as appropriate. In addition, ODCMO will consider alternatives for monitoring conversion progress, particularly with respect to achievement of FIAR objectives. It will also assess if designated senior official oversight is necessary for data conversion and large data management efforts.</p>
<p>4.8 The Department should: (1) evaluate the causes of system interface problems; (2) determine whether the number of interfaces can be reduced (e.g., by incorporating activities performed by legacy systems into the ERPs); and (3) determine what improvements can be made to support more effective interfaces between systems.</p>	<p>Ongoing</p>	<p>The Department recognizes that system interfaces represent significant risk to ERP implementation success. Governance bodies within the Components actively question user requests that would over-customize ERPs and drive use of innate functionality first.</p> <p>Through implementation of the requirements within the FY 2010 NDAA, the Department assesses business process reengineering efforts to limit the number Reports, Interfaces, Conversions, and Extensions (RICE) objects (particularly interfaces) to the maximum extent practical. The investment management processes look for redundancy and opportunities to sunset legacy and/or stovepipe systems that might also require inefficient interfaces with ERPs if not retired or subsumed.</p> <p>The ODCMO will look for additional opportunities, particularly through FY 2012 NDAA implementation, to support and enforce more effective system interfaces.</p>

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Recommendation	Status	Actions Taken and Planned
<p>4.9 The DoD DCMO, in coordination with the Director for Operation, Test and Evaluation (DOT&amp;E) and Deputy Assistant Secretary of Defense for Development, Test and Evaluation (DASD(DT&amp;E)), should assess information system control testing needs for all ERPs being developed by the DOD and determine whether appropriate workforce levels and corresponding skill sets exist within the Department's developmental and operational test communities. The Department should take actions to address any identified shortfalls.</p>	<p>Ongoing</p>	<p>The DOT&amp;E and DASD(DT&amp;E), in consultation with the DoD DCMO and Components, will assess their role in evaluating information system controls for all ERPs being developed by the Department, and examine necessary skill sets to accomplish such testing to determine if additional training is required within the DoD developmental and operational test communities.</p>

## Appendix 2. FIAR Strategy and Methodology

A clear, comprehensive strategy and methodology for achieving audit readiness is critical to ensuring limited resources are assigned effectively to facilitate measurable and sustainable progress. The FIAR Strategy provides a critical path for the Department, balancing the need to achieve short-term accomplishments with the long-term goal of obtaining an unqualified opinion on the Department's financial statements. The goals of the FIAR Strategy are aligned with the DoD SMP priorities for strengthening financial management.

The FIAR Methodology consists of a series of phases, key tasks, and underlying detailed activities that reporting entities must follow to improve financial information and achieve audit readiness. It also provides an organized structure to manage the FIAR Plan, facilitating oversight of improvement activities and holding people and organizations accountable for progress.

The following sections provide an overview of the DoD SMP, FIAR Strategy, and FIAR Methodology. A more detailed discussion of the FIAR Strategy and Methodology is included in the FIAR Guidance, located at: <http://comptroller.defense.gov/FIAR/guidance.html>.

## DOD STRATEGIC MANAGEMENT PLAN (SMP)

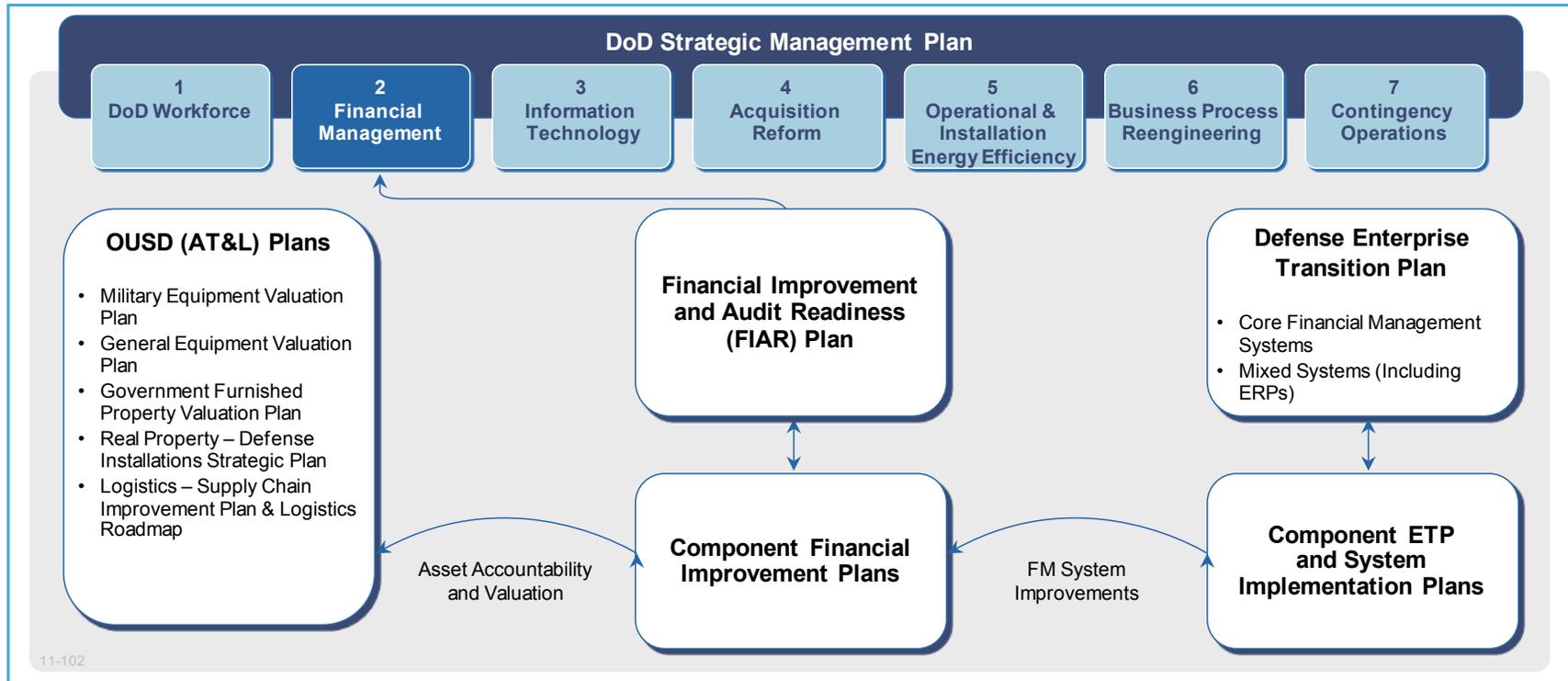
The Department's Strategic Management Plan, a requirement of the NDAA for FY 2008, establishes seven top-level business goals for communicating needed changes in the Department's "business domain" and to structure unity of effort across the enterprise. Business Goal 2, "Strengthen DoD Financial Management," establishes required outcomes, goals, measurements, and key initiatives to ensure DoD leaders have access to timely, relevant, and reliable financial and cost information to make informed decisions.

As shown in Figure A2-1, the FIAR Plan provides the strategy and methodology to achieve the outcomes of SMP Business Goal 2 by integrating the Components' FIPs with the other key DoD plans, such as OUSD(AT&L) plans, Defense Enterprise Transition Plan (ETP), and System Implementation Plans. The outcomes, goals, and measures associated with Business Goal 2 focus on improving financial information for fact-based, actionable management decisions and achieving auditable financial statements.

One of the outcomes of Business Goal 2 is to "Demonstrate good stewardship of public funds." The USD(C)/CFO is responsible for achieving this outcome and the associated goal, which is to "Increase the audit readiness of individual Components." The FIAR Plan and Component FIPs have been synchronized with their ETP milestones to achieve the FIAR goals and SMP outcomes.

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Figure A2-1. FIAR Plan Relationship to the DoD Strategic Management Plan and Other DoD Plans



### FIAR STRATEGY

The Department's priorities for audit readiness first focus on improving the financial and business information most useful to DoD management and warfighters: budgetary and mission critical asset information. The audit readiness priorities are specifically addressed within the FIAR Strategy.

Each of the Department's material financial statement line items have unique and complex accounting and auditing challenges that must be overcome before auditability can be achieved. The FIAR Strategy groups and prioritizes the material business processes, which ultimately result in financial activities and information reported in the financial statements, within one of four waves. Each Component or reporting entity then summarizes the steps taken to address each wave. The waves and steps are prioritized based on USD(C)/CFO priorities, known challenges, and the dependencies of financial statements, line items, and business processes on one another.

Figure A2-2. FIAR Strategy



The Department's FIAR Strategy (Figure A2-2) draws from the strengths of several alternative approaches and groups individual end-to-end processes into one or more waves. Efforts are prioritized within each wave by end-to-end processes that affect corresponding line-items reported on multiple financial statements.

This strategy ensures coverage of all financial statements, while prioritizing and first improving the information most often used by DoD management. Successful completion of these four waves will lead to the achievement of interim audit readiness milestones, and ultimately, to a full-scope financial statement audit.

The reporting entities must ensure that appropriate controls are in place and operating effectively for relevant financial reporting processes prior to asserting each wave as audit ready (e.g., controls over the presentation and disclosure of the SBR must be asserted as audit ready at the end of Wave 2).

*The four distinct waves that comprise the FIAR Strategy lead to audit readiness milestones that will be validated by an independent auditor once controls are in place and operating effectively, and the appropriate management assertions have been made.*

The Audit Readiness Strategy "waves" representing significant levels of effort and accomplishments are:

- Wave 1 – Appropriations Received Audit
- Wave 2 – Statement of Budgetary Resources (SBR) Audit
- Wave 3 – Mission Critical Asset Existence and Completeness Audit
- Wave 4 – Full Audit, Except for Existing Asset Valuation

Wave 1, Wave 2, and Wave 3 should be performed concurrently because they focus on both of the USD(C)/CFO priorities: budgetary and mission critical asset information. Once reporting entities have achieved audit readiness for Waves 1, 2 and 3, they will commence Wave 4 audit readiness activities. An explanation of each of the waves follows.

#### Wave 1 – Appropriations Received Audit

Wave 1 focuses on the processes and related controls associated with the receipt and distribution (through apportionments, allotments and sub-allotments) of Congressionally appropriated funds. Wave 1 is critically important to the Department's overall financial improvement efforts, because it is the first step in receiving, recording, and tracking the funds provided to the Department to accomplish its mission. Recognizing the importance of this critical first step, the USD(C)/CFO

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directed Components to focus on achieving audit readiness for Wave 1 by the end of FY 2011. Accordingly, the Military Departments completed FIAR activities, submitted management audit readiness assertions, and an IPA firm audited Appropriations Received, which resulted in unqualified or “clean” opinions for the Army, Navy, and Air Force.

Wave 1 financial management benefits include:

- Improved accuracy and reliability of appropriated funds recorded in DoD systems.
- Improved accuracy of prior year funding amounts reported in the Department’s annual submission for the President’s Budget.

### Wave 2 – Statement of Budgetary Resources Audit

Wave 2 includes processes, internal controls, systems, and supporting documentation that must be audit ready before the SBR can be audited. The financial transactions that are summarized and reported on the SBR also affect other financial statements. The most important financial relationships are found between the SBR and the Balance Sheet. Specifically, because of the strong relationship between the FBWT line item on the Balance Sheet and SBR line items, the Department’s strategy for achieving successful completion of Wave 2 is dependent on achieving an auditable FBWT balance. For example, weaknesses in recording collection and disbursement transactions must be remediated before the FBWT Balance Sheet line item can be audit ready.

Wave 2 financial management benefits include:

- Increased transparency of budgetary transactions, which results in more effective use of limited resources.
- Increased operational efficiencies due to readily available and accurate cost and financial information (e.g., more accurate obligation data for the planning, programming, budgeting, and funds execution processes and fewer unmatched disbursements).
- Improved fiscal stewardship through reduced improper payments.

- Improved budgetary processes and controls, which facilitate compliance with laws and regulations, such as the Anti-deficiency Act.
- Budgetary execution linked to the President’s Budget, which facilitates a standard and consistent financial environment.

### Wave 3 – Mission Critical Asset Existence and Completeness Audits

Wave 3 focuses primarily on the Existence and Completeness assertions, but also includes the Rights assertion and portions of the Presentation and Disclosure assertion. During execution of Wave 3 audit readiness activities, reporting entities must ensure:

- All assets that are recorded in the Accountable Property Systems of Record (APSR) exist (Existence).
- All assets are recorded in the APSR (Completeness).
- The reporting entity has the right (Rights) to report the assets.
- Assets are consistently categorized, summarized, and reported from period to period (Presentation and Disclosure).

Improving the receipt of goods processes in the Procure-to-Pay process (in Wave 2) will help support and sustain the Existence and Completeness assertions in future periods, especially for those assessable units with a high volume of purchasing activity.

Wave 3 financial management benefits include:

- Increased transparency and visibility of the Department’s total assets.
- Improved reliability and accuracy of the logistics supply chain and inventory systems, which ensure that items needed by the warfighter are on-hand and available when needed and not procured unnecessarily.
- Improved ability to acquire, maintain and retire assets in a timely manner.

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- Improved management information.
- Better control over assets, preventing misuse, theft, or loss.

### Wave 4 – Full Audit, Except for Existing Asset Valuation

Building on the audit readiness momentum and progress from earlier waves, Wave 4 includes all other areas, including Environmental Liabilities, needed for full financial statement audit except for establishing the value of existing General Property, Plant, and Equipment (PP&E), Inventory, and Operating Materials and Supplies (OM&S).

The Department organized its audit readiness waves to recognize and best leverage the interdependencies between budgetary and proprietary accounting information. As Wave 2 focuses on the SBR and its underlying budgetary accounting records, the proprietary accounting records reported on the Balance Sheet also become audit ready. The following interdependencies will be leveraged to accelerate progress and results in Wave 4:

- Delivered Orders, reported on the SBR, equate to Accounts Payable reported on the Balance Sheet.
- Spending Authority from Offsetting Collections, reported on the SBR, equates to Accounts Receivable – Intragovernmental on the Balance Sheet.
- Unobligated Balances and Unpaid Obligations, reported on the SBR, correlate to FBWT reported on the Balance Sheet.
- Obligations Incurred, reported on the SBR, equates to a substantial portion of Gross Costs reported on Statement of Net Cost.

Wave 4 financial management benefits include:

- Achieving the goal of obtaining an unqualified opinion on all financial statements.
- Providing more reliable and accurate logistics supply chain information on the cost of Inventory and OM&S items.

- Improving the quality of information used by management when making operational decisions about capital investments in Military Equipment and General Equipment.

## FIAR METHODOLOGY

The Department’s methodology for achieving improved financial information and auditability has evolved and been refined since the FIAR Plan first was issued in 2005. The current FIAR Methodology is more focused, effective, and consistent across DoD reporting entities. Regardless of this evolution, much of the methodology remains:

- Integrated with the implementation and requirements set forth by OMB Circular A-123, Appendix A.
- Integrated with the modernization of business and financial systems.
- Comprehensive, focusing improvements on policies, processes, controls, systems, data, audit evidence, and human capital.

The FIAR Methodology, which prescribes a standardized set of steps which must be followed in sequential order to achieve audit readiness, incorporates lessons learned from earlier audit readiness initiatives and:

- Identifies and focuses on, Key Control Objectives (KCOs) and Key Supporting Documents (KSDs) as primary outcomes of financial improvement activities.
- Includes use of a standard framework for recording and tracking the status and progress of reporting entity audit readiness activities in FIPs.

### FIAR Methodology Phases and Key Tasks

Before publication of the FIAR Plan in 2005, the Department developed “Business Rules” that required reporting entities to execute a phased approach to achieve auditability. The Business Rules also established a process for the OUSD(C) and the DoD OIG to monitor

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and evaluate the audit readiness status of a reporting entity before a financial statement audit was initiated. This process reduced the risk of an unsuccessful audit.

The Business Rules have since been refined and currently are referred to as “phases” within the FIAR Methodology. The methodology provides a step-by-step approach to achieve improved financial information and audit readiness. Figure A2-3 provides a graphical depiction of the phases and the key tasks within each phase.

The phases and key tasks, listed below, can be applied uniformly regardless of the size, materiality, or scope of an assessable unit:

1. Discovery. Management documents its business processes and financial environment; defines and prioritizes its processes into assessable units, and assesses risks; defines KCOs and control activities; tests the design and operational effectiveness of controls; evaluates the sufficiency and accuracy of KSDs; and identifies any weaknesses or deficiencies.
2. Corrective Action. Management defines and designs its audit readiness environment, documents solutions to resolve each deficiency identified during the Discovery phase, identifies resources required (funding and staffing) to implement corrective actions, and defines and develops validation procedures that will confirm that the corrective action plan successfully remediated the deficiency.
3. Evaluation. Management evaluates corrective action effectiveness through testing and determines whether it is ready to assert audit readiness.
4. Assertion. Management prepares documentation and asserts audit readiness to the OUSD(C) and DoD OIG through submission of a management assertion regarding the design and effectiveness of its internal controls based on the results of the three preceding phases.
5. Validation. The OUSD(C) and DoD OIG review and provide feedback on management’s assertion and, when warranted, engage

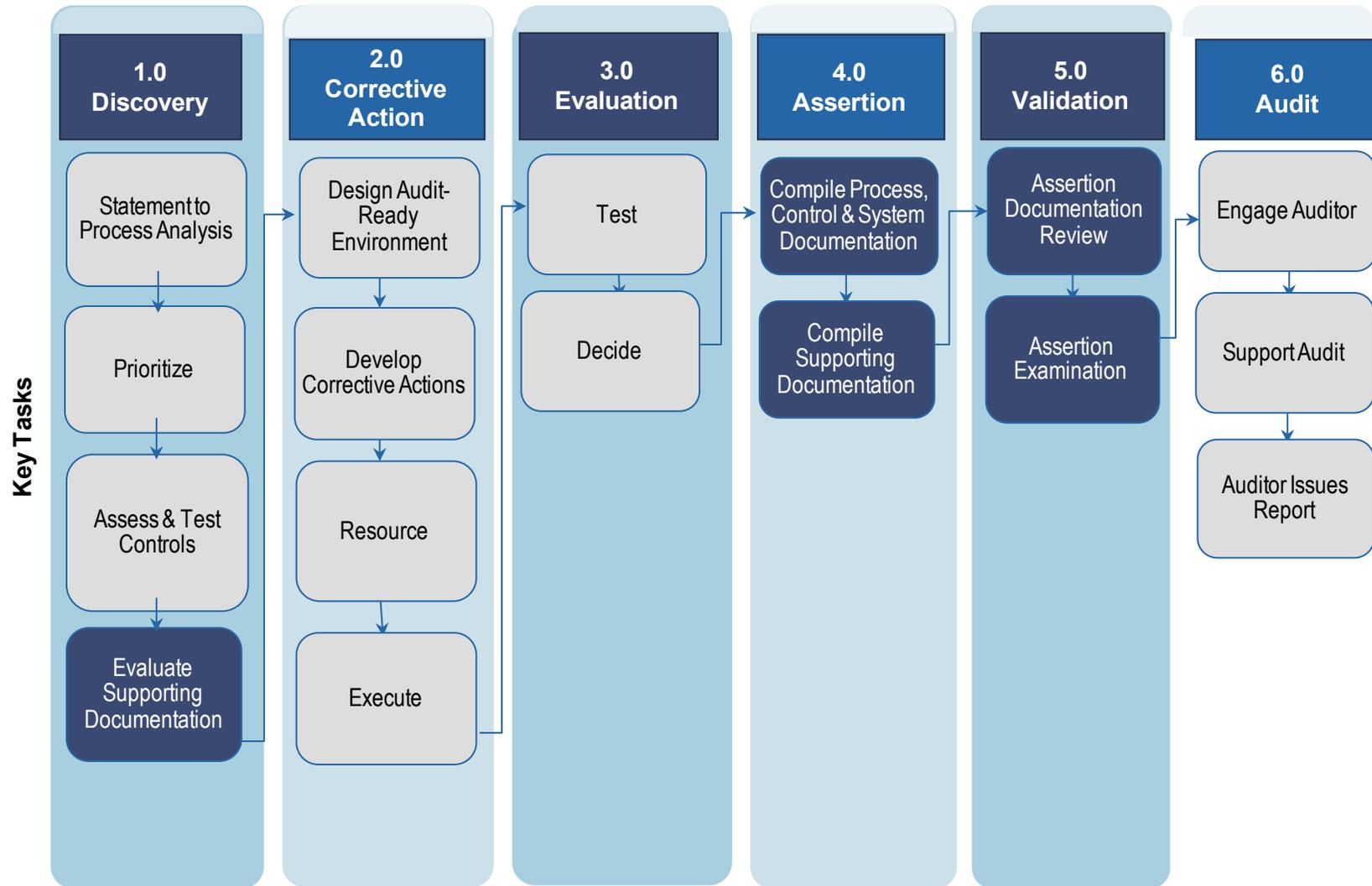
auditors to perform an examination of the reporting entity’s audit readiness assertion.

6. Audit. Either the DoD OIG or an IPA performs the audit of the assessable unit or complete financial statements, and the reporting entity’s management supports the audit.

This step-by-step methodology delineates responsibilities between management and the auditors. Management’s responsibilities focus on completing the Discovery, Corrective Action, and Evaluation phases (Phases 1, 2 and 3) prior to asserting audit readiness on their assessable units and financial statements (Phase 4). The OUSD(C) and DoD OIG perform a review of the assertion documentation, and an independent auditor performs an examination to express an opinion on the reporting entity’s audit readiness assertion (Phase 5). Finally, the DoD OIG or an IPA performs the audit of the assessable unit or financial statements (Phase 6).

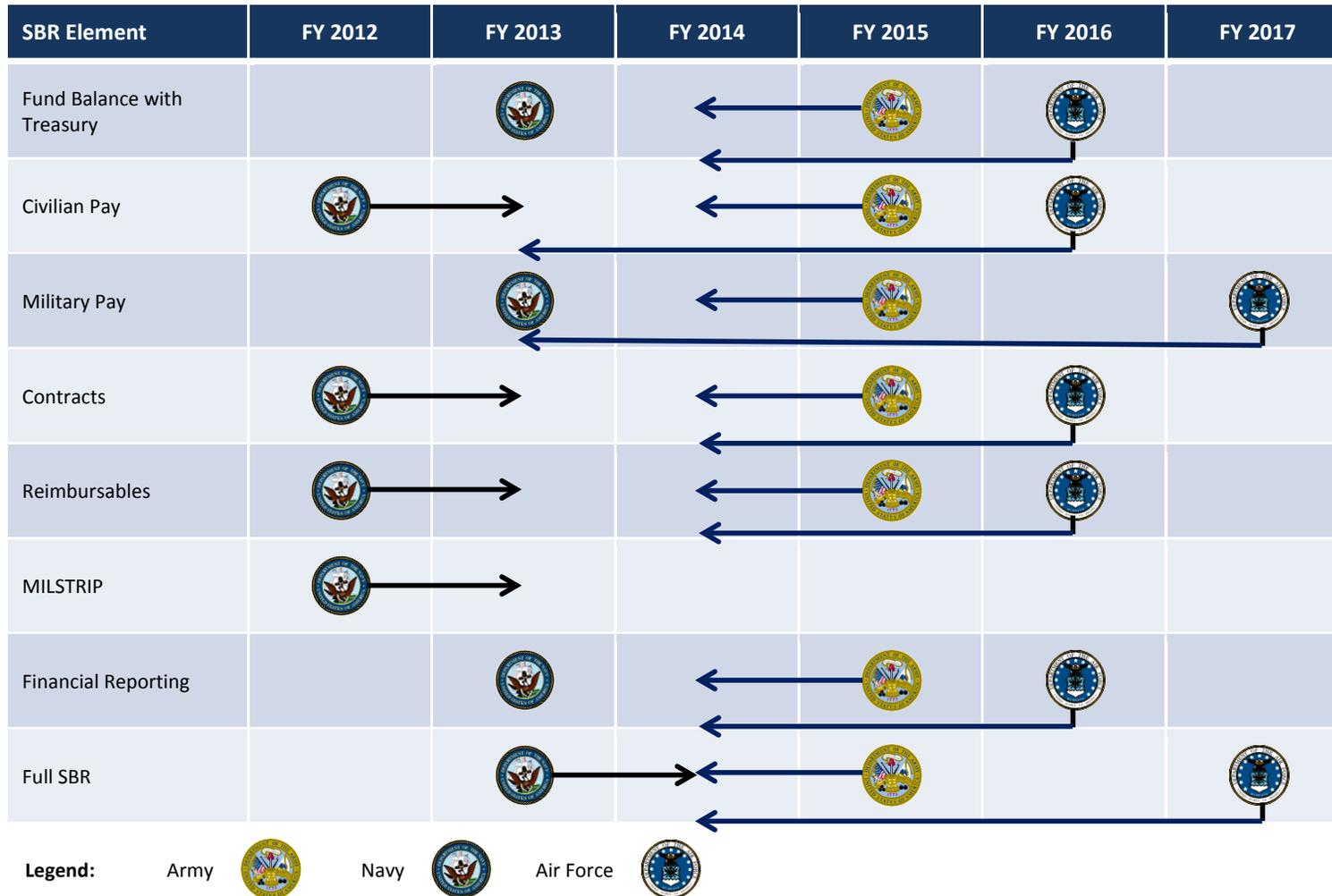
Detailed information explaining the FIAR Methodology, to include a description of the phases and key tasks, can be found in the FIAR Guidance document issued by the OUSD(C). The FIAR Guidance can be found on the Department’s FIAR website at: <http://comptroller.defense.gov/FIAR/guidance.html>

Figure A2-3. FIAR Methodology Phases and Key Tasks



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## Appendix 3. Revised Audit Readiness Validation Target Dates for Key Elements of the Statement of Budgetary Resources\*



\* Revised target dates based on financial improvement plan changes to achieve Secretary Panetta's direction in October 2011.

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## Appendix 4. Commonly Used Acronyms

Acronym	Definition
AAA	Army Audit Agency
ADM	Acquisition Decision Milestone
ADS	Automated Disbursing System
AFAA	Air Force Audit Agency
AF/A4LX	Air Force/Logistics Ops, Plans, and Programs Division
AF/A4L	Air Force/Directorate of Logistics
AF/A4LE	Air Force/Material Support Division
AF/A4LM	Air Force/Integrated Life Cycle Management (ILCM) Policy Division
AF/A4LW	Air Force/Nuclear Weapons, Missiles, and Munitions Division
AFB	Air Force Base
AFEMS	Air Force Equipment Management System
AFM	Automated Funds Management (Funds Control and Distribution)
AFMC	Air Force Materiel Command
AFSPC	Air Force Space Command
AFPC	Air Force Personnel Center

Acronym	Definition
AMC	Air Mobility Command
APN	Aircraft Procurement Navy
APSR	Accountable Property System of Record
ARNG	Army National Guard
ASN(FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
ATAAPS	Automated Time Attendance and Production System
AWP	Assertion Work Products
BPR	Business Process Reengineering
BSO	Budget Submitting Office
BUPERS	Bureau of Naval Personnel
CAP	Corrective Action Plan
CCCPMD	Consolidated Credit Card Program Management Division
CFO	Chief Financial Officer
CIO	Chief Information Officer
CIP	Construction in Progress

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Acronym	Definition
CMCP	Change Management and Communications Plan
CMO	Chief Management Officer
CMR	Cash Management Report
CSDP	Command Supply Discipline Program
CY	Calendar Year
DAI	Defense Agencies Initiative
DARPA	Defense Advanced Research Projects Agency
DASN-FO	Deputy Assistant Secretary of the Navy – Financial Operations
DCAS	Defense Cash Accountability System
DCMA	Defense Contract Management Agency
DCMO	Deputy Chief Management Officer
DCPAS	Defense Civilian Personnel Advisory Service
DCPS	Defense Civilian Payroll System
DCPDS	Defense Civilian Personnel Data System
DDRS-AFS	Defense Departmental Reporting System – Audited Financial Statements
DDRS-B	Defense Departmental Reporting System – Budgetary
DEAMS	Defense Enterprise Accounting and Management System

Acronym	Definition
DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
DISA	Defense Information Systems Agency
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DMAG	Defense Management Advisory Group
DoD	Department of Defense
DoD OIG	Department of Defense, Office of the Inspector General
DON	Department of the Navy
DON-FMB	Department of the Navy, Office of Budget
DON-FMO	Department of the Navy Office of Financial Operations
DTIC	Defense Technical Information Center
DTRA	Defense Threat Reduction Agency
DTS	Defense Travel System
ECSS	Expeditionary Combat Support System
EDA	Electronic Document Access
EFT	Electronic Funds Transfer

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Acronym	Definition
ERP	Enterprise Resource Planning System
FBWT	Fund Balance with Treasury
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Readiness
FIP	Financial Improvement Plan
FISCAM	Federal Information System Controls Audit Manual
FORSCOM	US Army Forces Command
FY	Fiscal Year
GAFS	General Accounting and Finance System
GAO	Government Accountability Office
GCSS-A	Global Combat Support System-Army
GE	General Equipment
GF	General Fund
GFE	Government Furnished Equipment
GFEBs	General Fund Enterprise Business System
GMRA	Government Management Reform Act of 1994
GPC	Government Purchase Card

Acronym	Definition
GPP&E	General Property, Plant, and Equipment
HAF-A1	Headquarters Air Force, Office of the Deputy Chief of Staff, Manpower, Personnel and Services
HAF/A7C	Headquarters Air Force – Civil Engineer of the Air Force
IMCOM	Installation Management Command
IPA	Independent Public Accountant (or Accounting Firm)
IPAC	Intra-Governmental Payment and Collection
IPPS-A	Integrated Personnel Pay System – Army
IT	Information Technology
IUID	Item Unique Identification
KCO	Key Control Objective
KSD	Key Supporting Documentation
LMP	Logistics Modernization Program
MAJCOM	Major Command
MDA	Missile Defense Agency
MDAP	Major Defense Acquisition Program
ME	Military Equipment
MILSTRIP	Military Standard Requisitioning and Issue Procedures

## FIAR Plan Status Report

Acronym	Definition
MOCAS	Mechanization of Contract Administration Services
MOU	Memorandum of Understanding
NAVAIR	Naval Air Systems Command
NAVAUDSVC)	Naval Audit Service
NAVSEA	Naval Sea Systems Command
NAVSUP BSC	Naval Supply Systems Command Business Systems Center
NDAAs	National Defense Authorization Act
NexGen	Next Generation
NSA	National Security Agency
NSMA	Navy Systems Management Activity
OASA(FM&C)	Office of the Assistant Secretary of the Army (Financial Management and Comptroller)
OCIO-DoD	Office of the Chief Information Officer, Department of Defense
ODCMO	Office of the Deputy Chief Management Officer
ODNI	Office of the Director for National Intelligence
ODO	Other Defense Organization
OM&S	Operating Materials and Supplies
OSD	Office of the Secretary of Defense

Acronym	Definition
OMB	Office of Management and Budget
ONR	Office of Naval Research
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics)
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
OUSD(P&R)	Office of the Under Secretary of Defense (Personnel and Readiness)
PAY-M	Pay Management
PCS	Permanent Change of Station
PMO	Program Management Office
PoAM	Plan of Action and Milestones
PSA	Principal Staff Assistant
SABRS	Standard Accounting, Budgeting and Reporting System
SAF-AQ	Office of the Assistant Secretary of the Air Force for Acquisition
SAF-FM	Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)
SAF-FMB	Secretary of the Air Force, Financial Management – Budget

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Acronym	Definition
SAF-FMP	Office of the Deputy Assistant Secretary of the Air Force for Financial Operations
SAS	Statement of Auditing Standard
SBR	Statement of Budgetary Resources
SFIS	Standard Financial Information Structure
SMP	Strategic Management Plan
SPAWAR	Space and Naval Warfare Systems Command
SSAE	Statement on Standards for Attestation Engagements
STARS	Standardized Accounting and Reporting System
STARS-FL	Standard Accounting and Reporting System – Field Level Accounting
STARS-HCM	Standard Accounting and Reporting System – Headquarters Claimant Module
TAFS	Treasury Account Fund Symbol
TAS	Treasury Account Symbols
TDY	Temporary Duty
TOA	Total Obligation Authority
TRADOC	Training and Doctrine Command
USD	Under Secretary of Defense

Acronym	Definition
USD(AT&L)	Under Secretary of Defense (Acquisition, Technology, and Logistics)
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
USMC	United States Marine Corps
USSGL	U.S. Standard General Ledger
WAWF	Wide Area Workflow
WCF	Working Capital Fund

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